The Scottish Parliament

FINANCE COMMITTEE

AGENDA

1st Meeting, 2007 (Session 2)

Tuesday 16 January 2007

The Committee will meet at 10.00 am in Committee Room 2 to consider the following agenda items:

1. **Decision on taking business in private:** The Committee will consider whether to take its report on a legislative consent memorandum in private at this meeting and at its meeting on 23rd January.

2. **Government Expenditure and Revenue in Scotland:** The Committee will take evidence from—

    Dr Andrew Goudie, Chief Economic Adviser and Head of Finance and Central Services Department, Scottish Executive; Fiona Robertson, Senior Economic Adviser and Head of Office of Chief Economic Adviser, Scottish Executive: Sandy Stewart, Head of Unit, Office of Chief Economic Adviser, Scottish Executive and David Stewart, Head of Finance Expenditure Policy Division, Scottish Executive.

    and then, in a round-table discussion, from**—**

    Professor Brian Ashcroft, Policy Director of the Fraser of Allander Institute; Professor Hervey Gibson, Chairman of Cogent Strategies Ltd; Victor Hewitt, Director of the Economic Research Institute of Northern Ireland; Professor Neil Kay, University of Strathclyde; Professor Gavin McCrone, General Secretary of the Royal Society of Edinburgh; Professor Anton Muscatelli, Principal and Vice-Chancellor of Heriot Watt University; and Peter Wood, Managing Director of Tribal HCH Ltd.

3. **Statistics and Registration Services Bill (UK legislation):** The Committee will consider its draft report on legislative consent memorandum LCM (S2) 12.1.

Susan Duffy
Clerk to the Committee
Room T3.60
Extn 85215

The papers for this meeting are:

Agenda Item 2

Submissions from—	FI/S2/07/1/1
Professor Hervey Gibson Professor Neil Kay	
Paper from the Budget Adviser	FI/S2/07/1/2
Correspondence from the Scottish Executive	FI/S2/07/1/3
PRIVATE PAPER	

Agenda Item 3

PRIVATE PAPER	
Submissions from—	FI/S2/07/1/4
Professor David Bell, University of Stirling Richard Harris ISD NHS Donald MacRae, Lloyds TSB Scotland Chris Mitchell, Member of the Scotstat board Royal Statistical Society Edinburgh Local Group Scottish Enterprise Scottish Information Commissioner Scottish Public Services Ombudsman Statistics Commission Professor Barry Winetrobe	
Correspondence from the Scottish Executive	FI/S2/07/1/5

Finance Committee

1st Meeting 2007, Tuesday 16 January 2007

Government Expenditure and Revenue in Scotland (GERS) – Written Submissions

1. The Committee will be taking evidence on GERS from a panel of officials from the Scottish Executive and then from a variety of experts in a "round table" format. The following submissions have been received for this session:

    - Professor Hervey Gibson
    - Professor Neil Kay

2. The Committee is invited to consider these submissions.

Susan Duffy
Clerk to the Committee

Evidence to the Scottish Finance Committee on GERS - Hervey Gibson, Cogent Strategies International Ltd.

I clearly remember being incensed when I received the very first GERS. My reaction, both emotional and professional, was that where Scotland was making disproportionate drawings on the National (UK) exchequer these had usually been carefully estimated and emphasised, and where it was making net or disproportionate contributions to the exchequer these had been assumed away or hidden under crude assumptions about 'reflecting national averages'.

That would not be a fair reaction to this year's GERS. As a result of considerable improvements at ONS and the Treasury, and a transformation in the statistical service that Scottish statistical officials have been able to provide, the document is by and large a professional, technically highly competent, understandable and useful piece of work. Although I might not agree with every one, the professional judgements, even where they have a political dimension, have been made in a fair and balanced way. The climate is also such that there are now channels for suggesting changes in statistical methodology, and Executive statisticians listen to and often (not always) take account of advice. That said, I have four key points:

Clearer links to economic management concepts

1. There is room for even more clarity, notably in the Treasury source document, Public Expenditure Statistical Analysis (PESA). It remains hard to tie some categories of spending to the National Accounting concepts for measuring the whole economy, and to locate programmes and institutions we recognise. It would be good if key tables in GERS and PESA could be made available on a calendar year basis to correspond to management of the economy as well as of public sector finances.

'Where incurred spending' as well as 'who benefits'

2. GERS expenditure is quite properly compiled on the basis of 'who benefits' from the public services supplied, irrespective of where the service is produced. However many would see one of the 'benefits' of public spending that it can provide work in places or at times when jobs are scarce, and that through its supply chains and the expenditure of its employees it supports jobs and businesses in the wider economy. Estimates of spending on a 'where incurred' basis would help to assess these important indirect and induced benefits, or multiplier effects. Without such estimates we will always be left with the suspicion that many employment and income benefits accrue to London or Newcastle, rather than to Scotland.

Many-year effects, including debt interest

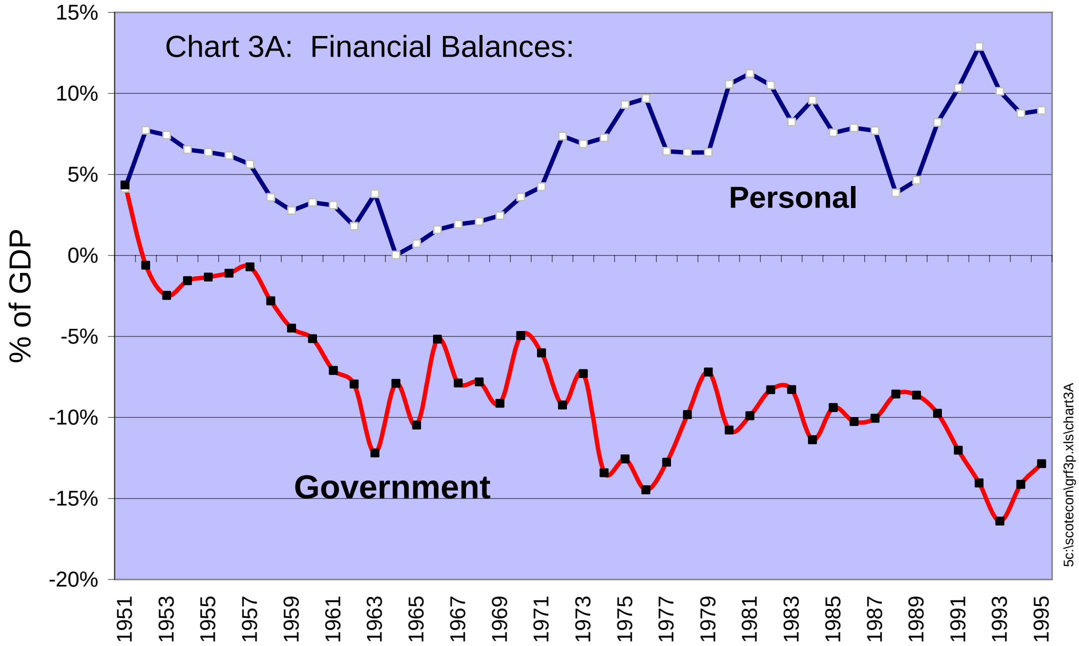
3. It is particularly noticeable when looking at the 'oil augmented account' (Table 5.2) and the helpful graphs in section 7 that GERS compilation is based on one year at a time, with no links from one year to the next.

If oil were accounted as ‘Scotland’s resource’ now, it would make a very significant but not an overwhelming difference to public Net Borrowing this year. But if in oil’s heyday 20 years ago it had been accounted to a fiscally autonomous Scotland the difference today would be huge. There would be much less than £2 bn allocated to payment of debt interest (Table 6.6), possibly even a surplus of interest receivable. In view of the discussion of ‘golden rules’ in section 2 it would be instructive to compile accounts to cover a run of years both historically and for the future, with balances transferring from one year to the next.

The public sector is not the only one

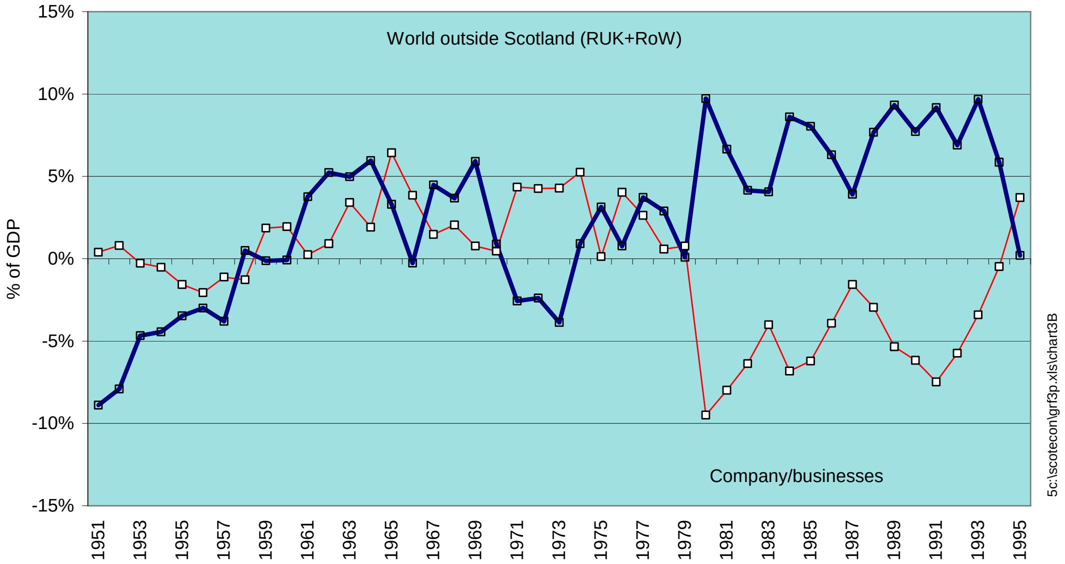
4. The ‘Net Balance’ or NB figure quoted in GERS is not about ‘whether Scotland can pay its way’ but whether the public sector in Scotland is in deficit or surplus. Just as important are the financial surpluses or deficits of businesses and of individuals in households. Ten years ago we estimated the long run pattern of these for *The Caledonian Blue Book* and in a few weeks’ time I would be happy to provide the committee with an update – family illness has unfortunately prevented me preparing it in time for the committee.

   The first chart shows the Government net balance, and the red (bottom) line is very recognisable as an upside-down version of Chart 7.6 in the latest GERS.



The chart also shows that a high rate of personal sector surplus could largely be said to have ‘financed’ the government deficit.
In the second chart first examine company balances, shown by the thin red line.

Chart 3B: Financial Balances: Companies & World Outside Scotland



Our estimates indicated that until 1979 companies in Scotland were in surplus(except for small deficits in the late 1950s). In 1979 drastic changes in *monetary* policy and circumstances, not fiscal policy, plunged companies into deficit.

The thick blue line in the second chart really can be considered an indication of whether Scotland pays its way in the world. It shows the 'rest of the world' surplus and is equal and opposite to the sum of the other three sectors – public, business, and personal. From 1980 to 1995 the rest of the world had a big surplus with Scotland – or in other words Scotland had a big deficit with the rest of the world. The main cause of this were the monetary and market shifts around 1979.

Working out the surplus and deficits of the other sectors is an even more judgemental exercise than compiling GERS, but in my view it sheds worthwhile light on both economic policy and constitutional issues. I would hope that in the longer term the Executive could be allowed the resources to extend its economic accounting – and in the interim will be happy to circulate the next episode, 1996-2006, as viewed through our eyes in a few weeks' time.

Evidence on GERS to Finance Committee, January 2007, Neil Kay

GERS clearly provides some answers, though less clear may be the questions that GERS provides answers to. The brief for the evidence session invites *'views on the methodology and assumptions used in GERS and … on it as a national statistics publication and a "best estimate" of the Scottish position'*. We shall take for granted that there are acknowledged methodological limitations of GERS and that these are real and key problems. However, many of the relevant issues have been noted in previous work such as that by Cuthbert and Cuthbert[1] and it is assumed both that the Finance Committee is aware of their important work and that there is no need to replicate the arguments here.

Here we shall concentrate on some issues of potential relevance to some long term trends regarding Scottish public finances and consider to what extent methodological considerations permit us to use GERS as a "best estimate" of the Scottish position in these regards. We shall argue that it is absurd to exclude the oil and gas sector from baseline estimates of Scottish public finances or indeed GDP, not just for the well-stated reasons that they underestimate them, but because of the powerful impact of such a major natural resource on the non-oil economy If it is possible to identify regional (Scottish) shares of the public good of defence spending in GERS, then it does seem curious that it is apparently so difficult to do the same in the case of tax revenues from private goods in the oil and gas sector. With that in mind, we focus on the crucial issue of long term trends in Scottish public finances in GERS 2004-05[2]. GERS notes that for Chart 7.3 (attached here as an Appendix): *"The underlying relationship between the two series has been broadly stable with the expenditure share exceeding revenues by around 1 or 2 percentage points. The gap has slightly widened over recent years although this was also evident around the period 1986-1990".*

The first issue to be attended to is; to what extent, given the known methodological limitations of GERS could this chart be taken to be a reasonable indicator of aspects of long term trends in Scottish public finances? We first note that even if exclusion of petroleum-related tax revenues represented a bias, it may still be possible to identify clear trends and relationships in other elements of the GERS analysis. Further, there could still remain biases in the remaining components of the analysis but as long as these biases were consistent (e.g. if corporation tax were regularly over- or under-estimated by about the same percentage amount) it may still be possible to infer some long-term trends using GERS. Also sampling errors for a single year may be less of an issue for a series tracked over a sufficiently long period, here 25 years. Therefore, even if there remain legitimate

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[1] For example, *A Critique of GERS: Government Expenditure and Revenue in Scotland,* Cuthbert, J.R., Cuthbert, M.: Fraser of Allander Institute Quarterly Economic Commentary, vol 24, no.1 (1998): *A Constructive Critique of the Treasury's Country and Regional Analysis of Public Expenditure,* Cuthbert, J.R., Cuthbert, M: Fraser of Allander Institute Quarterly Economic Commentary, Vol 30, No.3: (2005)..

[2] http://www.scotland.gov.uk/Resource/Doc/159996/0043602.pdf

reservations regarding the methodology and accuracy of other elements of GERS, GERS may indicate some long-term trends in non-oil expenditure and revenues, regardless of whether the Scottish finances are in deficit or surplus. If we tentatively accept the GERS measurements here as potentially providing a useful indicator of long term trends, there still remain problems. Interpreting statistical series is notoriously subject to perception and interpretation and can be influenced by which time periods are selected for review, but it must be said that that my perception and interpretation of this series is quite different from the GERS economists. GERS says the gap between the expenditure and revenue series has “slightly widened” over recent years, but what I see is a gap averaging about 0.8 percentage points in the first three years 1980-83 widening to an average gap of about 1.7 percentage points over the last three years 2002-05. A rough doubling of the gap over the period is difficult to reconcile with a description of “slightly widened”. Nor do I see the relationship between the two series as “broadly stable”. On the contrary, there seems to be a trend of relatively slow decline on the expenditure side of about 0.2 to 0.3 percentage points 1980-83 to 2002-05 against a relatively rapid decline on the revenue side of about 1.1 percentage points from 1980-83 to 2002-05. GERS cites 1986-90 here, but this period looks more like a temporary expenditure peak and revenue trough in the context of longer term trends of increasing divergence of the two trend lines, a potentially very serious policy issue if validated.

One way of examining whether GERS’ methodology here is producing trend(s) which reflects or echoes actual long term trends in the Scottish economy is to ask the question; is the pattern shown in Chart 7.3 consistent with what we would expect to see from other evidence? These are two sets of evidence which might be useful in these respects. First, we could ask if it is consistent with other empirical evidence on the Scottish economy. In these respects the relatively poor industrial performance of the Scottish economy against international comparators (including UK) over the period in question (slow growth, poor levels of new business formation, sluggish productivity, etc.) would suggest that declining Scottish tax revenue from various sources as share of UK described in Chart 7.3 is not surprising, but indeed is to be expected. Second, we could ask if the trend(s) in Chart 7.3 is consistent with other evidence for an economy/region in Scotland’s position. One obvious culprit for declining Scottish tax revenues as share of UK is Scotland’s relatively static population relative to the UK.

However, there is a further set of potential influences here which has been the subject of considerable economic research in recent years into what is termed “the Resource Curse”. The “Resource Curse” is remarkable for several reasons. First, it is counterintuitive. The “Curse” is the apparent paradox that countries with a windfall “blessing” of natural resources tend to grow more slowly than countries without these natural resources. Second, it has strong support from empirical evidence. Third, there are a number of possible transmission mechanisms for the Resource Curse, and which hold in practice may depend on the case in point. Fourth, it has only become a recognised phenomenon in the last few years despite the strong empirical evidence that it exists[3].

Could GERS indications of a deteriorating tax base be a consequence of a Resource Curse in the context of the windfall of North Sea oil? We can first disregard some candidate explanations for a Tartan Resource Curse. For example, effects of a windfall of natural resources on interest rates and real exchange rates would be expected to impact on the UK economy as a whole rather than Scotland's place within that economy. Also, other aspects of the Resource Curse literature such as corruption and rent seeking may be deemed potentially more relevant to some LDCs than to the Scottish case.

However, there remain other potential influences that could still hold in a Scottish context. The Harvard economists Sachs and Warner[4] have conducted significant research into this issue and note that increasing demand for inputs from the natural resource sector can drive up input costs and wages, squeezing profits of (and crowding out) traded activities such as manufacturing that compete with the natural resource sector for these same inputs. The crowding out of manufacturing then puts the squeeze on the growth process. There is certainly some casual evidence that these processes may have been at work in the context of North Sea oil, for example the crowding out of some light engineering activity in North East Scotland with the advent of the oil industry there. Ironically the GERS statement of Scottish finances may be showing the disbenefits of oil without consideration of the direct revenue benefits.

While most of the theoretical and empirical work has been carried out at the level of countries, what is particularly significant from the point of view of Scotland is that work on the possibility of a Resource Curse at the level of resource-abundant regions within a developed country (the US) has begun to emerge in the past few months[5], and these findings appear to be broadly consistent with crowding out of growth-oriented activity by resource abundance (and concomitant adverse effects) observable at country level. Indeed, it is entirely possible that Scotland's population problems may not be a wholly separate issue, but could itself be (at least in part) a side effect of the Resource Curse.

One point worth noting in passing is a parallel set of arguments looking at public sector crowding out private sector activity, reflected in a recent David

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[3] See Jeffrey D. Sachs, J. D and Warner A. (2001) "The curse of natural resources" *European Economic Review* 45 827}838
http://www.earth.columbia.edu/about/director/pubs/EuroEconReview2001.pdf

[4] Ibid

[5] See: Regional Specialization in the Long Run, Guy Michaels, October 2006
http://personal.lse.ac.uk/michaels/Michaels_Specialization_Fall_2006.pdf,
Resource-Abundance and Economic Growth in the U.S. E. Papyrakis and R. Gerlagh 2004
http://130.37.129.100/ivm/organisation/staff/papers/EER_resourcesUS.pdf
Does the Natural Resource Curse Apply to the United States? C. Cooke, D. Aadland and R. Coupal May 2006 http://www.uwyo.edu/aadland/research/resourcecurse.pdf

Hume Institute seminar[6]. The remarks by Dr Fabian Zuleeg on "*resource crowding out*" and by Professor Brian Ashcroft on "*dynamic crowding out effects which have a negative impact on the drivers of private sector growth such as entrepreneurship, innovation, investment, competition and skill formation*" are particularly noteworthy because to a large extent they appear to independently echo some microeconomic pressures and effects that are also associated with the Resource Curse. The possibility of a pincer movement on the tax base of Scottish public finances from twin public sector and Resource Curse crowding out effects is as depressing as it is interesting. In fact, given the growing international evidence for Resource Curses at regional as well as country level, if it is argued that Scotland has escaped a Resource Curse, it would be reasonable to ask why. An economist from Mars, knowing all about the Resource Curse but nothing about Scotland, would not be surprised by news of the poor performance of the Scottish economy and its contingent tax revenues following the windfall of North Sea oil. We leave as a separate issue why GERS shows government spending declining more slowly than might be expected from a Barnett Squeeze, a trend that may itself be subject to change in the future.

If there is a Resource Curse at work in the Scottish context, then it may be consistent with trends identified in GERS, but even more importantly it will have serious policy implications for the Scottish economy, including its public finances. It would be useful if the GERS approach could be extended to look at regional and sectoral trends in public finances within Scotland, amongst other things it could give valuable information as to whether or not there is a Resource Curse at work, and if so, the form it takes. The Norwegian example[7] shows that the adverse effects of a Resource Curse are not inevitable, but a prerequisite for framing policy to deal with it is recognising in the first instance that it may be a real danger for a resource abundant country or region. This is especially important given the possibility also exists that Scotland could be doubly cursed in the absence of specific policies framed to counter a Resource Curse, the first time during the extraction phase, the second time being left competitively disadvantaged with weakened tradable sectors once the oil eventually does runs out. Study of how Norway anticipated and dealt with the crowding out effects of the Resource Curse should be mandatory for all Scottish policy makers. However, at the moment there is no strong indication that the tendency (or possibility) of severely divergent expenditure and revenue trends that GERS appears to flag up is recognised in the accompanying analysis in GERS, let alone any broader recognition of policy implications contingent on a weakening tax base.

Conclusions

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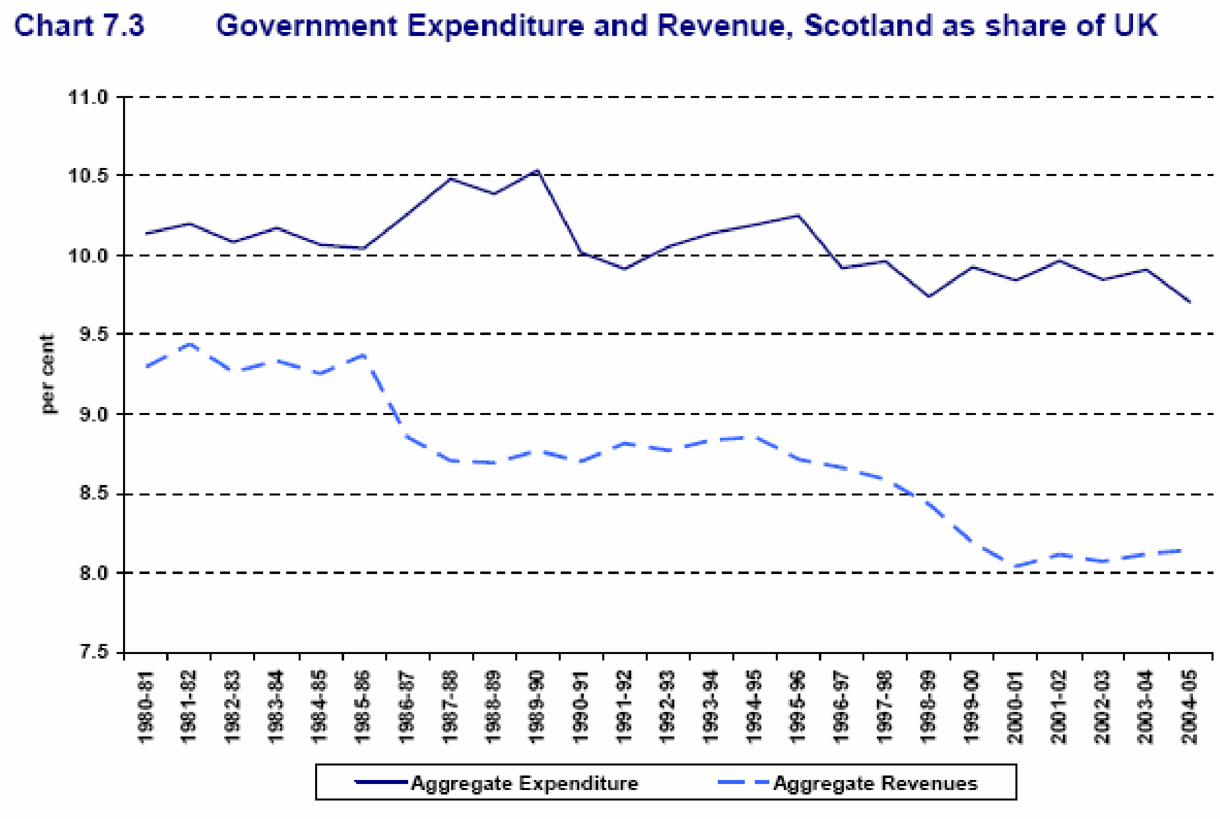
[6] See the report of the David Hume Institute seminar October 2006 at; http://www.davidhumeinstitute.com/DHI%20Website/Events,%20transcripts%20&%20presentations/Events%202006/Commentary%2010%20October.pdf

[7] The Economic Effects of North Sea Oil on the Manufacturing Sector H. B Bjornland http://ideas.repec.org/a/bla/scotjp/v45y1998i5p553-85.html

Escaping the Resource Curse and the Dutch Disease? When and Why Norway Caught up with and Forged ahead of Its Neighbors Erling Røed Larsen http://ideas.repec.org/p/ssb/dispap/377.html

(1) GERS has methodological limitations, many of which have been well documented.
(2) It is absurd to exclude the oil and gas sector from baseline estimates of Scottish public finances and GDP, not just for the well-stated issue of underestimation of these figures, but because of the powerful effect this major resource sector may have on the non-oil economy.
(3) Nonetheless, GERS may provide useful indications of long run trends.
(4) Aspects of long run trends in public finance tracked by GERS are consistent with what would be expected from other evidence.
(5) These trends signal serious policy issues for the management of the Scottish economy
(6) A prerequisite for sound policy advice is recognition of the nature and implications of these trends but there is no strong evidence of such recognition in the accompanying analysis in GERS.

Appendix



Source: Government Expenditure and Revenue in Scotland 2004-5, Scottish Executive 2006

Finance Committee

Government Expenditure and Revenue in Scotland: Background Paper by the Budget Adviser

Introduction

1. The objective of this paper is to chart the development of the annual Government Expenditure and Revenue in Scotland report (known as the "GERS" report) since its introduction in 1992; provide members with an understanding of the methodology and underlying assumptions of the GERS exercise; and evaluate the criticisms made of both the report itself and the budgetary trends contained within it.

2. GERS was first published in 1992, by the then Conservative government. This stated that there had been considerable attention given to levels of government spending and finance in Scotland within the UK budget and that the report sought:

   "to bring together in convenient reference form, available facts and figures about government expenditure and revenue in Scotland, drawing from official public sources, to increase public knowledge and understanding of what is an important aspect of the Scottish economy" (Scottish Office 1992)

3. This report was developed and expanded in 1995 and acknowledged the political context in which this information is published, as:

   "…an important element in the debate about Scotland's constitutional future. This debate has generated a range of claims and counter-claims about the size of Scotland's budget deficit or fiscal deficit and the implications for Scottish living standards under constitutional options open to the people of Scotland" (Scottish Office 1995)

4. This statement reflects the intensive politicisation around the publication of the GERS report. Heald and McLeod (2002) argue that the GERS exercise "has been damaged by the spin which Ministers have placed upon it, initially as an anti-devolution message and more recently as an anti-independence message"

5. As Heald and McLeod acknowledge, GERS does not provide an exposition of what the public finances would look like under independence, as other policy levers would be available to Scottish Ministers in that context. What it does do is provide an estimate of the fiscal flows to and from Scotland in the current political context. These broadly map out "the kind of fiscal position from which an independent Scotland would start." (Murkens, Jones and Keating 2002, p193).

6. Unsurprisingly, therefore, this political context has resulted in an annual political dispute over the accuracy of the GERS estimates and the interpretation of their implications for differing constitutional scenarios.

Members therefore need to be clear that GERS seeks to measure the fiscal flows within the UK, not Scotland's fiscal health in the event of independence, which would depend on how a Scottish Government responded to the fiscal position from the UK (Midwinter 1998). Whilst there are political disagreements over the GERS exercise, Members should be clear that it is widely regarded as providing a relevant and robust information base for researchers in this field and is used as such in addressing the scale of Scotland's fiscal deficit (see for example Heald, McLeod and Robb 1999; Bell and Christie 2002). Researchers are accustomed to using estimating techniques to identify broad spending patterns and trends, and making broad judgements. McKay and Wood (1999) summarise the consensus view that whilst GERS underlying data and assumptions are not beyond challenge "- the GERS report is sensibly conducted and the best available summary of the existing situation" (p26).

7. Finally, by way of introduction, it is important to be aware that the scope and impact of the GERS exercise is constantly changing as improvements to the methodology are made. This means that strict comparisons of data over time should be conducted with caution, particularly if significant breaks in a pattern result and such impacts should be detailed and reported for public assessment.

Principles

8. The pattern of fiscal flows in the United Kingdom is a reflection of policy commitments by the UK government. In particular, it reflects long-standing principles of budgetary and economic policy. Firstly, the central underlying principle for resource allocation is that it will be on the basis of relative need, with the objective of providing broadly similar standards of service throughout the UK – irrespective of fiscal contributions to the Exchequer.

9. Expenditure need is often encapsulated within a resource allocation formula, as in the distribution of funding to health boards or local authorities. The concept of need and methodology for assessing it is essentially a matter of judgement even when statistical models are used.

10. In the UK, public expenditure is planned and controlled on a departmental basis or, post-devolution, through the devolved administrations which succeeded the territorial departments. Arguments are made for additional funding on grounds of need. In Scotland's case, this has always operated through using decisions on English/UK programmes as a benchmark. Even in the period between formulae (1958-1978), this practice continued, with the Scottish Office bargaining over its individual programmes with the Treasury, with the result that:

"the system of building up a total of Scottish expenditure by reference to Scottish needs in particular areas has produced higher per capita public expenditure in Scotland in almost every category of public expenditure" (McCrone 1999, p40).

11. The second key principle of public finance is that taxation is broadly based on ability to pay (that does not necessarily mean each specific tax has that property, but that the system does in the round). All citizens are entitled to equal treatment in terms of access to public services and tax liabilities. Within a uniform system of taxation, there is therefore no specific link between public spending and taxation as there is in many federal systems. This pattern of fiscal flows result in what economists term fiscal transfers, through the automatic functioning of the tax system. Such transfers are often described wrongly as subsidies from one area to another, when in fact they simply represent the collective tax liabilities of residents in such areas.

12. One study of the pattern of fiscal flows in the UK observed:

"Transfer is not subsidy if it arises from the attempt to ensure that payment of tax at the same rate in prosperous and less prosperous parts of the nation state will result in comparable levels of service." (Mackay 2001, p5).

13. Such transfers are known as equalisation. Areas can be equalised for expenditure needs or for tax capacity. In the case of the UK, the approach is focussed on expenditure. The financial arrangements for financial devolution reflect the conventions of British budgetary policy, notably that the system is expenditure-based as funding derives from UK revenues, and it recognises the economic unity of the UK in that the expenditure needs of the whole UK are considered together, including the claims of regions with special problems

14. The third key principle of public finance relates to the distributive economic effect of spending in terms of regional policy, whereby government intervention is intended to reduce inequalities in economic performance, both by increasing demand and through multiplier effects of public spending.

15. These fiscal transfers are an important instrument of regional policy. Ross McKay (2001) regards transfers as necessary to correct existing inefficiencies and imbalances and to raise regional productivity. This has been widely recognised in Europe. For example, the McDougal Report on the role of public finances in European integration found that fiscal policy was very effective in reducing regional inequalities of income.

16. The GERS report records the outcome for Scotland of the fiscal flows. It provides estimates of public expenditure and revenue, with an overall summary of the net fiscal balance. The estimates reflect plausible assumptions as there is no official compilation of regional budgetary accounts in the UK. These therefore require the development of

concepts and definitions within the present constitutional context, and a set of statistical assumptions to overcome the data limitations.

17. The GERS analysis operates on the basis of ‘who benefits’ from expenditure, and ‘who pays’ with regard to revenues. Complete precision is not possible. GERS combines identifiable expenditure – spending which benefits residents of Scotland – with non-identifiable expenditure – which benefits residents of the UK irrespective of their regional location. Some programmes benefit individuals, such as benefit payments, whilst others benefit communities collectively, such as health and education services. Clearly, such a division cannot be exact, as, for example, university expenditure in Scotland can benefit students from elsewhere in the UK, whilst defence expenditure also creates economic benefits to particular localities. Similarly, conceptual difficulties occur in attributing corporation tax payments to specific areas.

18. The official view is that the GERS methodology has improved over time, as changes have:

> “…been designed to enhance both the data quality and the presentation of the estimates and has largely reflected three elements: firstly, the availability of improved data that allows the robustness of the work to be increased; secondly, the adoption of new international standards and conventions in the preparation of government accounts; and thirdly the moves to provide greater transparency and detail in the presentation of government accounts” (Goudie 2002 p59)

19. The GERS reports therefore constitute work in progress. They present estimates of expenditure and revenue, with the underlying assumptions made clear, rather than audited accounts. Nevertheless, they are widely regarded as presenting reasonably broad estimates of the pattern of fiscal flows in Scotland, rather than precise measurement, and use of such estimating techniques is common practice in social science research.

Identifiable Expenditure in Scotland

20. The most robust data in the GERS exercise is that provided for identifiable expenditure, which is derived from the long standing Public Expenditure Statistical Analyses (PESA) report produced annually by HM Treasury. This approach is also under constant revision to improve the data and major changes were made in 2004 as a result of the recommendation of a report commissioned by the Treasury, identifying the flow of domestic and European expenditure into the English regions (McLean 2003).

21. The key changes introduced were:
    - The definition of Total Expenditure on Services (TES) was changed when the definition of functions were brought more

closely into line with those of the United Nations classification of the functions of government.

- The dividing line between expenditure that can and can not be identified as being for the benefit of a particular country or region has been more firmly rooted in national accounts concepts and definition;

- Statisticians in government departments have responded to improved guidance and recommendations to use better methods and practices and have produced more accurate statistical breakdowns of the benefits to regions from outturn expenditure.
(HM Treasury 2004 p87)

22. The PESA exercise is coordinated by the Treasury, and departmental returns apportion their outturn spending which can be identified as benefiting the population of individual regions between the nations and regions of the UK. In Scotland's case, this includes expenditure by the devolved administrations, local authorities, and UK departments. By convention, all Scottish Executive expenditure is classified as identifiable expenditure.

23. The data published in GERS is set out below. The conventional approach is to convert the ratio of public expenditure per capita in Scotland to public expenditure per capita in England into an index using UK as the average, and thus = 100%. As definitions and allocations change annually, I have set the data out in five yearly intervals using a single GERS for each five year cycle. The data is therefore directly comparable with each period.

<u>Table 1: Index of Scottish Identifiable Expenditure per capita (UK=100)</u>

1986-7	122
1987-8	124
1988-9	123
1989-90	121
1990-1	119
1991-2	114
1992-3	117
1993-4	118
1994-5	119
1995-6	119

1996-7	118
1997-8	118
1998-9	119
1999-2000	118
2000-1	118
2001-2	119
2002-3	118
2003-4	119
2004-5	116

24. The figures for 1991 – of 114 – look implausible, and PESA records social security spending in that year as only 3% above the UK average, compared with a range of 8-13% in other years. Moreover, the current GERS figure is also implausible and I have raised it with the Executive.

25. Table 1 shows a consistently higher level of expenditure per capita over the eighteen year period covered in the GERS reports. It is also consistent with studies carried out covering earlier periods. After the adoption of the Goschen Formula in 1888, the Treasury published a series of Annual Financial Returns, covering England, Scotland and Ireland, which reported both contributions to UK revenue and locally identifiable public expenditure, with the balance attributed to 'imperial expenditure' (which we now call non-identifiable expenditure).

26. In the thirty year period thereafter, Scottish spending varied between 97 (in 1890) and 101 (in 1920). The rapid growth in the Scottish expenditure relative to the UK (hereinafter called the 'expenditure relative') began in 1928, when it was reported at 112, and by 1953 had reached 119 (McCrone 1999). This trend continued upwards during the period between formulae (1959-79) when the Scottish Ministers, particularly in periods of active regional policy in the lower half of the sixties and seventies. Scotland's expenditure relative increased to 126 in 1969-70 before falling to 117 in 1974-5, then falling again to 122 by 1977-8, and fluctuating around that level throughout the eighties (Midwinter 2000). PESA statistics became available from the mid-70s, and were collated by David Heald (1994) These are set out below.

Table 2: Scottish Identifiable Public Expenditure per Capita Relative to the UK (UK=100)

1973-4	118
1974-5	117
1975-6	119
1976-7	120
1977-8	122
1978-9	120
1979-80	122
1980-1	122
1981-2	124
1983-4	122
1984-5	122
1985-6	122

(Source: D Heald, 1994)

27. These increase to around 122 on average for the decade from 1978 and cover a period of severe economic recession and manufacturing decline for Scotland, when Scottish economic output and household income was well below the UK average, GDP per capita reaching a low

point of 88 in 1988. The historian Clive Lee concluded in his major work on Scottish economic history that such a “differentially high public expenditure figures reflect the fact that UK spending is based on the principle of equalisation to compensate for social, economic or demographic deprivation.” (Lee 1995, p134)

28. Scotland’s relatively high levels of identifiable public expenditure are therefore long established, and widely accepted by independent researchers. Apart from those already identified in this section, this is also covered in D MacKay and P Wood (1999); R MacKay (2001); Muscatelli (2001); Murkens, Jones and Keating (2002); and Bell and Christie (2005). I know of no academic paper which challenges this assessment.

29. What has been challenged since 1979, however, is the question as to whether Scotland’s expenditure needs still justify such relatively high per capita expenditure. This concern applies mainly to spending on services, not welfare benefits under the social protection programme which accrue to individuals who meet the necessary criteria, on the argument that Scotland’s economic performance has improved considerably since then and is now close to the UK average. In a recent paper in the Allander Series, Adair Turner (2005) regarded Scotland’s progress as commendable, with employment rates not far from below UK levels, and higher than continental European and GDP per capita, and close to the UK average (p23).

30. Much of the criticism has been made by researchers concerned that other areas are disadvantaged by the high levels of spending in Scotland. This is the position adopted regarding Wales, (R MacKay (2001); Morgan (2001)); Northern Ireland, (Wilford and Wilson (2003) Tomlinson (2002)) and North East England, (McLean and Macmillan (2001)). Further criticism has been made from an economic liberal perspective arguing for expenditure reductions as a way of improving Scottish economic performance (MacKay and Bell 2006). From both perspectives, the authors argue that because of the improvement in Scottish GDP levels, higher expenditure is neither defensible nor necessary. MacKay and Wood (1999) observe that:

“Given the improvement in Scottish income and unemployment levels relative to the UK it is difficult to justify the extent of the existing Scottish advantage in terms of public expenditure” (p3)

31. Such critics particularly refer to the failure of the Barnett Formula – which is the basis of block grants to the devolved administrators – to deliver convergence of per capita expenditure across the UK. In fact, Barnett was never intended to deliver full convergence, but simply to close the 7% gap between broad brush spending and need levels as reported in the Treasury Needs Assessment study of 1977 (HM Treasury 1977) between spending (122) and need (115) on devolved services in Scotland. This basic error continues to be made by

academics (Muscatelli 2001 McLean and Macmillan 2001) and journalists (McWhirter 2006) alike.

32. Lord Barnett himself now argues for the formula to be scrapped as it is unfair to English regions, whereas in 1977 “it was the different levels of income per head” that convinced Ministers to entrench the higher standing in the formula. But as Lord Barnett also points out, they had no specific consideration of spending needs at that time (Barnett 2000 pp70-71).

33. The fundamental problem is that whilst GDP is a measure of economic output, it is not particularly relevant as an indicator of public expenditure need. As the Treasury has long acknowledged, population is the main driver of expenditure, with additional needs arising from the consequences of poverty, deprivation, and additional costs from sparsity in rural areas, or congestion in London. Most resource allocation formulae use a population basis with weights for the relevant secondary factors.

34. I have argued at length elsewhere that on expenditure need grounds, a strong case can still be made for significantly higher per capita spending in Scotland. Although needs cannot be measured with precision, proxy indicators are often used, and judgement is necessary (Midwinter 1997). In the Treasury Needs Assessment Study, additional funding was made to Scotland on grounds of higher levels of poverty, poor health and sparsity across a range of services. If we examine the Scottish position on such indicators today, this indication of higher needs remains, as set out below in table 3.

Table 3 Scottish Needs Index Relative to UK, 2005 (UK=100)

Unemployment level	125
Income support claimants	125
Housing benefit claimants	127
Council tax benefit claimants	126
Incapacity benefits	125
Standardised mortality ratio	116

(Source: Regional Trends 2006)

35. Further, because of remote rural populations scattered across the north and south of Scotland, there are road mileage levels 54% greater than the UK; reflecting a level of sparsity four times the UK. It is not surprising, therefore, that the Cabinet has not deemed it necessary to reopen the financial basis of Scottish Devolution.

Non-Identifiable and Other Expenditure

36. GERS also presents information on non-identifiable expenditure and other expenditure. Non-Identifiable expenditure means spending incurred on behalf of the UK as a whole, or which cannot be separated

between the individual countries of the UK from existing records. This accounted for £3.1 billion or 14.2% of Scottish expenditure in 1990-1, and fell to 10.2% by 2001-2. The following year, the scope of non-identifiable expenditure was increased to include debt payments, and its percentage share rose to 13.1%, and has since increased to 15.4%.

37. Other expenditure in 1990 included privatisation proceeds, debt interest and capital charges for capital consumption. This accounted for £2.6 billion or 11.9% in 1990-1. This fluctuated between 9.6% and 12.9%, until the accounting change in 2002-3, which transferred debt interest payments into non-identifiable expenditure, leaving a new category of accounting adjustments covering just 5-6% of total Scottish expenditure but consistently higher than Scotland's share of total UK expenditure. The level of accounting adjustments since 2002-03 are shown in table 4 below.

Table 4 Accounting Adjustments UK and Scotland

	UK £bn	Scotland £bn	Scotland % share of UK
2002-03	17 839	2 284	12.8
2003-04	16 539	2 392	14.5
2004-05	22 774	2 900	12.7

38. GERS makes use of two measures for attributing Scotland's share of non-identifiable expenditure. In 1990-1 GERS, it stated:

> "There are various bases for allocating non-identifiable GCE between the four territories of the UK. The relative share of UK population (8.9% in 1990) or of GDP (8.2% in 1990) or some more sophisticated method (unstated) could be used as the basis for allocating expenditure to the territories" (p9)

39. The approach adopted was GDP share. If expenditure is incurred for the benefit of the UK as a whole, then theoretically population share appears a more relevant measure. The document does not provide a rationale for the choice, but the principal impact of it is to reduce Scotland's estimated share of non-identifiable expenditure. If population share had been used in 1990, it would have increased from £3.1 billion to £3.4 billion.

40. In 1996-7, the GERS treatment of both defence spending and overseas services was changed to a population basis, although by this time population and GDP shares were similar at 8.7% and 8.6% respectively. It stated that "the use of population (or GDP) share is determined by and consistent with – the "who benefits principle, given that defence expenditure is incurred on behalf of the UK as a whole.

41. Other expenditure was also mainly allocated on the basis of GDP share. The distinctive treatments were local authority debt interest and

capital consumption charges, which are based on estimates of actual share, and they reflect Scotland's consistently higher levels of capital spending, which in itself reflects construction costs; higher unit costs; because of sparsity; higher levels of public housing; and public ownership of water in Scotland.

42. In 1990-1, other expenditure was £2.6 billion or 11.9%, and this was £3.8 billion or 9.6% in 2001-2, prior to the accounting change referred to earlier. Throughout this period, Scotland's share of non-identifiable expenditure was less than its population share, at 7.7% in 1990, but grew closer to its population share after changing the basis of the defence estimates in 1995, then below population share after the accounting changes of 2002-3, to 8.2% in 2004-5.

43. By contrast, Scotland's share of other expenditure has been consistently above population share apart from 2000-1. The trend data for these categories is set out below.

<u>Table 5: Scotland's Share of Non-Identifiable and Other Public Expenditure</u>

	Non-Identifiable (%UK)	**Other (%UK)**
1989/90	7.7	10.0
1994/95	8.4	10.2
1999/00	9.5	8.4
2004/05	8.2	12.7

44. More importantly, the balance between identifiable and the other two categories has been constantly changing, with identifiable, which is the most robust spending data in GERS, increasing, from 73.9% in 1990, to 80.9% in 2004.

45. The only critical review of GERS treatment of expenditure data was provided by J and M Cuthbert in two papers published in the FAI Quarterly Economic Commentary in 1998 and 2005. The first of these (Cuthbert and Cuthbert 1998) focussed mainly on the conceptual problems of defining what is meant by identifiable expenditure, and questioning the adequacy of the "who benefits" principle. In sum, their view is that the GERS approach only takes account of benefits to citizens from service provision and ignores wider economic benefits such as direct employment and multiplier effects arising from such spending. For example, whilst defence is assumed to benefit all residents of the UK, it brings additional economic benefits to the regions in which it is incurred.

46. This is an issue of debate between specialists in the field, and indeed acknowledged throughout the GERS series. In the 1993-4 report, for example, it is recognised as an alternative approach which 'would allocate expenditure to the country in which the expenditure was

incurred' (p6). The report provides an illustration of how spending by the Central Statistical Office is assumed to benefit all of the UK, although it has offices across the regions of the UK, as the material is used for UK national statistics, whilst expenditure on the General Register Office for Scotland collects statistics which are principally for the benefit of Scottish residents.

47. The thrust of such arguments is that Scotland receives less of such expenditure in economic terms than its population share. In practice, the approach used does consistently allocate non-identifiable spending to Scotland on a level at or below its population share. The 1993-4 GERS report examines the territorial impact of defence expenditure, and concluded that:

> "…the share of defence expenditure included in Scotland was around 7.5% in 1993-4, significantly below the population share. However, this figure was offset by higher shares of spending on UK-based armed forces and MOD civilian personnel (around 9.5% of the UK total in both cases). Furthermore, whilst only 7.5% of defence procurement expenditure was spent in Scotland, a slightly higher proportion (around 8%) of employment among defence contractors supply equipment to the armed forces was in Scotland" (p16)

48. The report concluded that a reasonable assessment of Scotland's share of overall UK defence expenditure was 8.8%, which then was exactly equal to the population share, and marginally above the share of GDP.

49. The Cuthberts also questioned the treatment of European receipts, arguing that this overestimated Scottish spending by £350m. The GERS approach has since adjusted how it handles European funding.

50. In their most recent paper (Cuthbert and Cuthbert 2005) they examined the PESA database, and found a number of inconsistencies in the allocations. In particular, some £4.4 million of expenditure treated as non-identifiable in England is treated as identifiable in Scotland, thus double counting the Scottish share of this total. They also identify a number of minor discrepancies, and conclude that Scottish spending could be overstated by up to £440m. I understand those criticisms will be addressed in next year's GERS report and Scottish spend adjusted accordingly.

51. In terms of the first point about the method of calculating identifiable expenditure, there is merit in both views and indeed one could argue that the alternative approach is more consistent with the objective of measuring government expenditure in Scotland, and recognising its economic impact. These are matters of judgement, but in terms of the impact on the fiscal arithmetic, the 1993-94 GERS stated that:

"For most transactions, the allocations under the two different approaches is virtually identical." (p.6)

52. The final point is that I am not aware of any attempt to assess the accuracy of the PESA data from another national perspective – i.e. Northern Ireland, Wales or English regions, in the way that competing perspectives on needs assessments have been made. PESA and GERS are exercises in estimation, not accounting, and further anomalies may emerge in the future.

Revenues

53. The first attempt to comprehensively estimate tax revenues in Scotland was made in GERS 1993-4. The 1990-1 report covers only the four main taxes, income tax, national insurance, VAT and local taxation. GERS acknowledges that estimating revenues is more problematic than expenditures. It states that almost 8% of revenues can be fairly readily allocated to Scotland, but difficulties arise with regard to corporation tax (as headquarters location is used to distribute it), some capital taxes (e.g. capital gains tax) and expenditure taxes.

54. The main taxes all require estimation. The Scottish share of income tax is derived from an annual survey by the Inland Revenue and Social Security Contributions on the basis of government estimates for the UK published in the Blue Book. Corporation tax is estimated by attributing a share of the UK total on the basis of ONS information in the UK regional accounts. VAT is estimated on the basis of household and expenditure data in the expenditure and food survey. Local authority revenues reflect the official estimates of local government. These are the main taxes, and others are dealt with in detail. As with all estimates, they require judgement on the basis of the realism of the assumptions made, and the plausibility of the results.

55. Detailed criticisms of the treatment of income tax, social security contributions, VAT and corporation tax, have also been made by J and M Cuthbert, but unlike their criticisms of expenditures, they do not attempt to quantify their assessments in monetary terms, concluding "it is, however, not easy to be constructive about how the exercise should be done" (Cuthbert and Cuthbert 1998, pp.50-53). Their comments highlight issues of how best to estimate these revenues, and problems of imprecision, but they do not address the issue of the plausibility of the results.

56. I have set out below a time series for the Scottish share of the main taxes and the UK total, alongside Scotland's share of the UK population.

Table 6: Scottish share of tax revenues

Year	Income tax	Social Security	VAT	Local Authority	Other taxes	All taxes	Population
1993	7.9	8.7	8.6	9.3	9.7	8.9	8.8
1994	8.0	8.7	8.7	9.3	9.8	8.9	8.8
1995	7.9	8.6	8.6	9.7	9.3	8.7	8.8
1996	8.0	9.0	8.6	9.0	9.1	8.7	8.7
1997	7.9	8.9	7.9	9.0	9.3	8.6	8.7
1998	7.4	8.6	8.2	9.2	9.1	8.4	8.6
1999	7.0	8.5	8.7	9.5	8.8	8.3	8.6
2000	6.9	8.3	8.3	9.3	8.8	8.2	8.6
2001	7.0	8.3	8.5	9.2	8.7	8.2	8.6
2002	7.2	8.1	8.2	8.9	8.8	8.1	8.5
2003	7.3	8.0	8.2	8.7	8.9	8.2	8.5
2004	7.3	8.3	8.1	8.8	8.6	8.1	8.5

57. Table 6 shows a consistent downward trend in the Scottish share of the four main taxes and the miscellaneous category. In the current GERS, corporation tax is extracted from other taxation and identified separately, but I have simply combined it with other taxation so a consistent time series can be presented.

58. Table 6 also shows a more modest fall in the population share. Are these trends compatible? There are a number of factors which suggest they are. Firstly, in the early 1990s average Scottish household income levels were around the UK average, and at that time, the Scottish share for social security and VAT was close to the share of population, local authority and other taxes were above population share, which is also consistent with higher levels of local taxation, and higher levels of expenditure on alcohol and tobacco in Scotland. Income tax is consistently lower than population share, which is a reflection of income distribution, as Scotland has fewer higher earners, with only 29% in the top three income ranges (out of eight ranges) compared with 36% for the UK as a whole (Regional Trends 2006, p.177). Finally local authority revenues have fallen relative to the UK in recent years because Scottish increases in council tax have been lower than England since devolution.

59. In terms of the estimated revenues, we find a similar pattern around population share in the early 1990s then falling slightly below population share gradually until 2004, at which point the Scottish estimate of 8.1% is some 95% of the UK level, and this is close to the Scottish GDP and income levels. GDP is 96% of the UK average and disposable household income is 93%.

60. This means that the estimate of 95% of tax revenues is broadly consistent with what we know about the lower levels of income and higher levels of unemployment in Scotland. The Executive's estimate of Scotland's share of UK revenues is both clearly plausible, and

consistent with other key trends in terms of population, income and output levels.

61. Finally, local authority revenues have fallen relative to the UK in recent years because of the low increases in council tax since devolution and the average Band D tax has been below the English level for a number of years now.

62. In the most recent GERS, the total of estimated revenues in Scotland is £36.4 billion, or 8.1% of the UK total of £447.4billion, compared with 8.5% of the UK population and 8.2% of GDP.

Fiscal Position

63. In the early GERS reports, the term used to describe the funding gap between expenditure and revenues was General Government Borrowing Requirement, the same term as used at UK level if governments were in deficit and required to borrow from the financial sector in order to balance the budget. Using this terminology is inappropriate in the Scottish context, as Scotland is part of the UK policy and as we have seen, does not actually have to borrow funds to bridge the gap between spending and taxation because of fiscal transfers, or equalisation within the UK.

64. Indeed in the first paragraph of the section, the GGBR is referred to ‘for convenience’ as the ‘fiscal deficit’ – the estimate of the extent to which public spending in Scotland exceeds taxes raised in Scotland. This is a more conventional term used by researchers in the analysis of fiscal flows between countries and regions of a unitary state.

65. Academic studies have used this approach in the past to examine the fiscal balances between regions even where no regional governmental structure exists. CH Lee’s study of such fiscal flows in the 20th Century acknowledges the need for estimate techniques over the revenue side of the fiscal equation. He observed that:

> “As regards the financial balance, it is clearly not possible to compute an exact surplus or balance. Neither the income nor expenditure records permit this” (Lee 1995 p120)

66. McCrone (1999) argues in a similar vein:

> “Any studies that attempt to estimate the fiscal balance, whether undertaken by government or individual researchers, has to make use of figures of varying quality. While information on locally identifiable expenditure being based on actual spend must be regarded as reasonably firm, that for non-identifiable expenditure can only be attributed using an arbitrary ratio such as population, GDP or some other relevant measure. There are problems also with revenue, since many taxes are not collected in the parts of the country where the economic activity takes

place. The figures are therefore estimates that rely on assumptions and sometimes on sample surveys or on figures collected for other purposes." (p33)

67. McCrone acknowledges that in assessing the results, a judgement has to be made of the realism of the assumptions, the approach adopted in this paper. McCrone used this approach himself in his ground-breaking study, (Scotland's Future 1969 p20), and calculated a fiscal deficit then of over £400m, as did a Treasury study of 'A Scottish Budget' in the same year (HM Treasury, 1969).

68. An earlier study by AD Campbell had estimated a £20m deficit in 1932 (Campbell 1954). Short's later study (Short 1981) showed that Scotland consistently paid less to the Revenue than the UK average throughout the 20th Century, as might be expected given lower wages and persistent unemployment. Lee's review of all such studies concluded there have been fiscal transfers favourable to Scotland throughout the 20th Century.

69. The key point for Members to appreciate is that surpluses and deficits between regions within the UK are the norm, and reflect the operation of fiscal and budgetary policy. They are not necessarily indicators of economic performance.

Table 7: Scotland's Fiscal Deficit 1993-4 to 2004-5[1]

Year	£ billion	% GDP	UK (£ billions)
1993	8.1	15.0	53.5
1994	8.2	14.0	47.9
1995	7.4	12.5	37.2
1996	7.1	11.3	31.7
1997	5.4	8.0	10.6
1998	4.9	7.0	-2.5
1999	4.0	5.5	-13.9
2000	5.4	7.1	-11.4
2001	8.0	10.3	5.9
2002	9.3	11.3	29.8
2003	11.2	12.9	39.3
2004	11.2	12.0	43.6

70. The GERS approach, therefore, follows the standard methodology utilised by researchers in the field. It has also been used for comparative analysis between the countries and regions of the UK. The Institute of Fiscal Studies, for instance, used this methodology to provide the background analysis necessary for its discussion of the options and issues for funding regional governments in the UK.

71. They argued that there is considerable variation between the standard regions and the territories in economic performance and living standards, and these variations mean that:

> "the existing patterns of spending per head, and of tax revenue per head, vary considerably between areas. Spending on social security benefits, for example, will tend to be higher in poorer areas, whilst income tax revenues will tend to be higher in more prosperous areas." (Blow, Hall, and Smith 1996, p6)

72. Variations in the tax burden across areas are a result of the application of uniform national tax and benefit rates. They utilised the major tax sources to estimate regional revenue receipts using their own IFS tax and benefit model, which is based on household income and spending data from the Family Expenditure Survey, and the pattern for Scotland is broadly similar to GERS, with below average receipts from income tax, VAT and national insurance, and above average results for tobacco and alcohol duty.

[1] Deficits are subject to revision between documents

Table 8: Scottish per capita receipts from the main sources of tax revenue, 1992-93 and 2004-5 (UK=100)

	1992-93	2004-05
Income Tax	90	86
VAT	96	95
National Insurance	97	98
Non Domestic rates	94	113
Petrol duty	90	66
Tobacco duty	140	142
Alcohol duty	117	105

(Source: 1992-93 IFS Commentary No54, p16, 2004-05 derived from GERS)

73. Their study concentrated on identifiable regional spending and taxes whose regional incidence could be clearly assessed. They then compared them using an index which calculated Scotland receipts overall at 97% of the UK average, and identifiable expenditure at 114% - (the same figure as in PESA and GERS). In short, this is consistent with the GERS view that in terms of fiscal balance, as share of spending exceeds share of revenues, Scotland benefits from fiscal transfers to equalise its expenditure needs (p19).

74. A similar study by Ross McKay (2001) sets out the economic objectives of fiscal transfers. He argued that:

> "Redistribution to those more able to provide for their needs through market transactions depends on the UK Exchequer rather than the tax base of the region. The objective is horizontal equity, equal treatment of similar citizens no matter where located. The inevitable outcome is regional transfer, public expenditure above tax in regions with a less healthy tax base." (MacKay 2001 p6)

75. Whilst MacKay is clear that transfer is not subsidy, he stresses there is legitimate interest in the scale and form of regional transfers, i.e. that these are reflective of needs. In the absence of regional revenue estimates for the UK regions, he uses regional GDP as a reasonable proxy (as it measures economic output) for regional tax capacity and regional revenue.

76. Using this methodology, Scotland received 15% more in spend than is raised in tax in 1997-8. This finding is again consistent with the GERS analysis, whilst the highest gainers were Northern Island (+52%); Wales (+34%) and North East England (+26%). The Scottish position had improved, in terms of reducing the scale of transfer, because of its growth in GDP since the 1960s (Brown 1977), but the same groups of countries/regions benefited from fiscal transfers at that time. This led MacKay to conclude that the pattern of fiscal transfers was 'overgenerous' to Scotland (and Northern Ireland).

77. Using MacKay's fiscal index (Expenditure ÷ revenues x 100), the undernoted results apply to Scotland.

Table 9: Scottish Fiscal Index 1991-2 to 2004-5

Year	Expenditure (£ billions)	Revenues (£ billions)	Index
1993-4	28.5	20.3	140
1994-5	29.7	22.4	133
1995-6	31.3	23.9	131
1996-7	31.5	25.0	126
1997-8	32.5	26.9	121
1998-9	32.3	28.1	115
1999-0	34.6	29.6	115
2000-1	35.6	30.4	117
2001-2	38.9	31.2	125
2002-3	41.4	31.6	131
2003-4	45.2	34.0	133
2004-5	47.7	36.4	131

78. The table shows a persistent fiscal deficit since GERS was first published in 1993 although the scale of the deficit fell until 2000 in line with the improvement in the UK government finances but has since increased.

79. In the terminology of GERS, Scotland is in persistent fiscal deficit – or a structural deficit in economic terms – irrespective of whether the UK is in surplus or deficit, and this is precisely what we would expect given the objective of fiscal equalisation for need.

80. The GERS documents also calculate the fiscal deficit as a percentage of GDP, and define it as a General Government Borrowing Requirement, (GGBR), a Scottish equivalent to the GGBR at Whitehall. This is entirely wrong in my view for as we have seen, the fiscal balance simply reflects the difference between spending allocations made by the UK Government and taxes raised from individuals, households and organisations on the basis of uniform policy and tax liabilities calculated on the basis of location of residence.

81. The pattern of fiscal flows emerges from the UK wide planning of resources, and UK levels of taxation (except for local taxation). The deficit is not a borrowing requirement, but a transfer of financial resources with a view to equalising expenditure needs and meeting benefit liabilities irrespective of place of residence. Taxation and expenditure transfer resources from wealthier to poorer households and areas, because of the automatic functioning of the UK tax and benefit system, and budgetary decisions.

82. The Scottish deficit is a reflection of the expenditure and tax policies of the UK government, seeking to promote common standards of service and reduce inequalities in regional economic performance.

83. The UK GGBR reflects decisions on expenditure, taxation and borrowing. Borrowing is used for economic stabilisation purposes to maintain services and economic activity in periods of decline or recession, and results in cyclical deficits. The Scottish fiscal deficit is not a borrowing requirement and certainly not evidence of poor economic performance as some commentators have implied. Indeed, if Scotland did not show a fiscal deficit, given the higher levels of poverty, unemployment, poor health and sparsity, then British expenditure and regional policy would have failed.

84. As we have seen, these deficits are long-term, and a reflection of structural factors and policy decisions. Similar patterns would be found in most European countries with equalisation mechanisms in place.

The Impact of North Sea Oil Revenues

85. I turn now to oil and gas revenues. The revenue analysis presented in GERS follows the conventions in the Regional Accounts and excludes oil, which is not allocated to specific geographical regions. This treats oil revenues as extra-regional, and as part of the UK continental shelf. This is perfectly legitimate if the purpose is to monitor the pattern of fiscal flows to and from Scotland within the United Kingdom under present accounting conventions. GERS also considers the impact North Sea oil revenues would have on the fiscal position if it was attributed to Scotland by setting out different assumptions on their allocations.

86. The GERS approach is to set out a range of assumptions for allocating varying proportions of oil revenues to Scotland, from 66% to 100%. This reflects the fact that the hypothetical proportion attributable to Scotland varies upwards with the price of oil. (Kemp and Stephens 1999). For my purpose which is purely illustrative, I have simply taken a maximising approach and set out the data in a time series which compares oil revenues to the fiscal deficits, assuming all revenues were allocated to Scotland. The results are set out in Table 10 below.

Table 10: Impact of North Sea Oil Revenues on Scottish Fiscal Deficit in GERS 1993-4 to 2004-5

Year	Annual Deficit (£ billions)	Oil Revenues (£ billions)	New Deficit (£ billions)
1993	8.1	1.2	6.9
1994	8.2	1.6	6.6
1995	7.1	2.4	4.7
1996	7.1	3.5	3.6
1997	5.4	3.3	2.1
1998	4.0	2.6	2.3
1999	4.0	2.5	1.5
2000	5.4	4.3	1.1
2001	8.0	5.2	2.8
2002	9.3	4.9	4.4
2003	11.2	4.3	6.9
2004	11.2	5.2	6.0

(deficits are subject to revision between documents)

87. The data shows that applying all oil revenues to Scotland has the effect of reducing the scale of the deficit, and it varies between a low of £1.1billion and a high of £6.9billion. In practice, this overstates the oil impact, as the Scottish share of North Sea tax revenues is less than 100%.

88. The fiscal deficit is also reported in a recent paper by Bell and Christie (2005), whilst the analysts most critical of the GERS methodology, Jim and Margaret Cuthbert (2002) also acknowledge that even allowing for their concerns, the fiscal deficit remains. The data also confirms the volatility of oil revenues recognised by researchers (Muscatelli 2001; Wood). The GERS evidence is consistent with evaluation of independent researchers. Wood (2001) for example concluded that:

> "A Scottish budget is in surplus only if almost all North Sea oil taxes are treated as 'Scottish' and only at times when oil prices are high. Take away either of these conditions and the Scottish budget is in heavy deficit." (p4)

89. The trend is also similar to that found by researchers from the Constitution Unit, although thier actual deficits differ narrowly from GERS, reflecting the fact that they used a range of sources including GERS. Murkens et al (2002) found a similar pattern to other studies of fiscal surpluses in the early 1980s and deficits since 1989.

90. They conclude

> "Scotland has higher public spending and lower tax revenues per head than does the UK average, implying that when UK tax revenues and public expenditure are in balance, Scotland is in deficit. This excludes oil revenues which, when included, do not

necessarily bring Scotland into balance. Relatively high oil prices and low US dollar values are required to bring present Scottish tax spending patterns into balance" (p198).

91. The data in Table 10 shows Scotland's fiscal deficit reducing from 1993-4 to 2000-01, in a period of expenditure restraint and under growth in oil revenues. Since then, the deficit has been rising again, because of rapid expenditure growth with broadly stable oil revenues. Oil revenues do reduce the scale of the deficit, but over the twelve year timescale, they do not eliminate it, and the average deficit including oil for the periods is £4.1 billion, compared with £7.2 billion excluding oil.

Conclusions

92. This paper has presented a description and assessment of the methodology and assumptions underpinning the annual GERS report, and set out the principles of the public expenditure planning regime within which it operates.

93. It shows that Scotland has received higher per capita public expenditure than the UK average throughout the periods covered by GERS exercises, and this is consistent with evidence for the period pre-GERS for most of the 20th Century.

94. It considers criticisms that Scottish spending levels are too high relative to need, and shows that Scotland still scores well above average on key need indicators such as poverty, unemployment, poor health and population sparsity.

95. The paper also presents evidence on Scotland's share of non-identifiable and other expenditure, highlighting criticisms of the assumptions underpinning these estimates, and shows that these only affect the estimates at the margins of the fiscal arithmetic.

96. The paper then sets out the basis of the estimates of tax revenues and criticisms of them, but notes that the financial impact of such criticism is not quantified, and appears again to be marginal. The data shows clear evidence that Scotland's share of UK tax revenue has been declining since the GERS series began, and that overall, this share is in line with Scotland's share of economic output.

97. The paper then reviews Scotland's fiscal position, and shows that Scotland has been in persistent fiscal deficit since the GERS exercise began in 1993, irrespective of whether oil is included or not, and that this is consistent with the assessments of independent research.

98. The paper shows that the GERS methodology is consistent with estimating techniques used in similar studies and produces similar results. Whilst the criticisms of GERS would clearly affect the scale of

the fiscal deficit, it would do so, up or down, only at the margins, and would not alter what the report terms the broad orders of magnitude.

99. However, the conceptualisation of this deficit as a borrowing requirement is open to challenge. It is simply a measure of the balance – between spending and taxation in Scotland – and not a measure of economic performance. Rather it is the direct result of UK fiscal policy, arising from Scotland's combination of higher expenditure need and lower fiscal capacity.

100. Whatever the merits of the criticisms made of the political presentation of GERS, it is in itself a valuable piece of research for monitoring fiscal flows between Scotland and the UK, widely accepted by researchers as a reasonable estimate of the fiscal position, using realistic assumptions, and making defensible judgements.

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Supplementary Note on GERS: Impact of Barnett Formula

1. Members will recall that I deemed the fall in the identifiable expenditure index from 119.2 to 115.8 to be implausible and well in excess of the normal degree of change.

2. I identified a fall in spending in 2004-05 against plans of £859m as a source of concern. The Scottish underspend is 2.2% compared with 0.7% across the UK and we were informed this was in part caused by increased use of EYF. I have sought further clarification of this from the Executive.

3. Other factors in the fall which are outwith Barnett are spending by UK departments and spending on agriculture. The first of these grew by only 0.6% in real terms (3.3% in cash) which is less than the growth in Executive spend (4.1%).

4. Secondly, the agriculture budget which is mainly EC determined fell by £102m.

5. Members should be clear that the DEL only accounts for around half of identifiable expenditure, whilst half is attributable to UK departments and AME, neither of which is Barnett-related.

6. Members may also have seen the coverage in the Herald that suggests the cross-border spending gap is narrowing and shows a marked decline in Scotland's spending advantage, because of the Barnett formula. As noted above, Barnett only applies to around half of public spending.

7. A more accurate picture can be found in PESA, which confirms my earlier comment. This shows spending remains broadly stable, and moving upwards as well as downwards over the cycle. The plans for 2005-06 show the Scottish share increasing to 10% again, unless further underspending through EYF again distorts the picture. This presents a picture of stability not decline in our relative position.

Professor Arthur Midwinter

Table1: Scottish Share of Identifiable Spending 2000 -2005 in PESA 2006

	% share	**Index (UK=100)**
2000	10.1	117
2001	10.2	119
2002	10.0	118
2003	10.1	119
2004	9.8	116
2005 (plans)	10.0	118

(Source: HM Treasury 2006)

Finance Committee

1st meeting 2007, Tuesday 16 January 2007

Government Expenditure and Revenue in Scotland – Correspondence from the Scottish Executive

The Committee's budget adviser, Professor Arthur Midwinter raised some queries over figures in GERS with the Scottish Executive. These queries related to a figure in Table 3.3 which scored the UK at £2072 per capita on social protection but which the Adviser thought should be £2702; and to large falls in outturn expenditure recorded for environmental protection and employment. Below is the response received from the Executive.

GOVERNMENT EXPENDITURE AND REVENUE FOR SCOTLAND (GERS) 2004-05

I am writing in response to Professor Arthur Midwinter's memo to you of 18 December in which he raised a number of queries about the figures in the latest GERS publication.

Firstly, Professor Midwinter quite correctly highlighted a minor data entry error in Table 3.3 which has been corrected. No other figures, including the main fiscal aggregates, are affected. I apologise for any confusion this may have caused.

Professor Midwinter highlighted that public expenditure per capita had fallen from 119.1 to 115.8 of the UK average between 2003-04 and 2004-05. This estimate, along with much of the expenditure data, is taken from HM Treasury's *Public Expenditure Statistical Analysis* (PESA) publication which details expenditure on services by UK region. The fall relative to the UK was previously highlighted in the 2006 edition of PESA published in May 2006, with some explanation in Table 7.12 in PESA. Such a fall is not unprecedented, as highlighted in Chart 7.4 of GERS which illustrates aggregate expenditure per capita.

Professor Midwinter also highlights a number of more detailed concerns regarding the falls in outturn expenditure across a number of categories between 2003-04 and 2004-05 in Scotland. I think I can offer some reassurance here. These are based on a comparison between the 2004-05 and 2003-04 GERS publications and consequently do not take account of the revisions to the 2003-04 estimate detailed in table 6.10 - and some ongoing revisions by the Office for National Statistics in the categorisation/scoring of expenditure.

I attach a spreadsheet detailing a comparison of the previously published 2003-04 data and that included in the 2004-05 publication. Using these revised figures the 'large fall in outturn expenditure for environmental protection of £329m' becomes an increase of £80m, while the decrease in employment policies spend reduces from £111m to £57m.

In terms of total growth the change from the revised 2003-04 figure of £37,048m to £38,581m in 2004-05 is £1,532m equivalent to 4.1%. The underspending from planned spending in 2004-05 measured in terms of the growth in EYF balances as held by HM Treasury was £322m. Taking this sum into account moves total planned growth to a little over 5%.

I trust this is sufficient for your briefing session tomorrow. I look forward to providing further information at Committee next week

Yours sincerely

ANDREW GOUDIE

TABLE 6.5	**2003-04 previous £m**	**2003-04 revised £m**	**2003-04 difference £m**	**2004-05 £m**	**year on change £m**	**year on change %**
General public services	840	808	-32	842	34	4.2%
International Services	0	17	17	20	3	17.6%
Defence	-1	0	1	2	2	0.0%
Public order and safety	1,820	1,807	-13	1,911	104	5.8%
Enterprise and economic development	549	594	45	625	31	5.2%
Science and technology	161	226	65	238	12	5.3%
Employment policies	913	859	-54	802	-57	-6.6%
Agriculture, fisheries and forestry	733	636	-97	631	-5	-0.8%
Transport	1,726	1,722	-4	1,672	-50	-2.9%
Environment protection	1,111	702	-409	782	80	11.4%
Housing and community amenities	906	1,325	419	1,279	-46	-3.5%
Health	7,363	7,341	-22	7,683	342	4.7%
Recreation, culture and religion	920	922	2	931	9	1.0%
Education and training	5,574	5,479	-95	5,892	413	7.5%
Social protection	14,537	14,610	73	15,271	661	4.5%
Total	**37,152**	**37,048**	**-104**	**38,581**	**1,533**	**4.1%**

Finance Committee

1st Meeting 2007, Tuesday 16 January 2007

Legislative Consent Memorandum on the Statistics and Registration Service Bill (UK legislation) – Written Submissions

The Committee will be considering a draft report at its meeting on the legislative consent memorandum on the Statistics and Registration Service Bill. The following submissions have been received to inform the Committee's consideration:

- Professor David Bell, University of Stirling
- Professor Richard Harris
- ISD NHS
- Donald MacRae, Lloyds TSB Scotland
- Chris Mitchell, Member of the Scotstat board
- Royal Statistical Society Edinburgh Local Group
- Scottish Enterprise
- Scottish Information Commissioner
- Scottish Public Services Ombudsman
- Statistics Commission
- Professor Barry Winetrobe

Roz Wheeler
Senior Assistant Clerk to the Committee

SUBMISSION FROM PROFESSOR DAVID BELL

Introduction

This document comprises my response to the request from the Finance Committee for comments on the Statistics and Registration Services Bill. I was asked to comment in respect of:

a) Whether the provisions are necessary or would be beneficial compared to the existing system for the production of and quality assurance of statistics in Scotland;
b) Whether the provisions will achieve the aim of reinforcing the integrity, independence and quality of statistics produced in Scotland;
c) Whether the proposed non-ministerial department structure will have appropriate lines of accountability in Scotland for its purpose;
d) Whether you consider a legislative consent motion to Parliament to be the appropriate means to legislate on this issue; and
e) Whether you have had an opportunity to engage with the Executive on this issue in advance of the introduction of the memorandum.

My comments are restricted to points (a), (b) and (c). I am not competent to make a judgement regarding point (d) and my response to point (e) is that I have not engaged with the Executive in respect of this Bill. Thus I start with a general discussion that relates to points (a) and (b).

As I understand it, the key motivation for the Bill relates to public trust in the quality of official statistics. The Statistics Commission asked MORI to conduct a survey of public attitudes to official statistics and one of their main findings was that:

> *"There was a widely-held view that there needed to be greater distance between the producers of statistics and government, possibly with an independent regulatory body which would monitor the use of official statistics."* Trust in Official Statistics: Report to Statistics Commission by MORI (2005)

There is undoubtedly a considerable amount of public scepticism regarding the independence of official statistics. While the scepticism may be misplaced, the perception is very damaging. Lack of trust in official statistics may lead to a belief that executive decision-making is arbitrary and not evidence-based. This may ultimately lead to a distrust of democratic institutions.

An Omnibus Survey on public confidence in UK official statistics was carried out in 2004. Among its key findings were:
"the majority of respondents believed official figures were changed to support a particular argument (68%), that there was political interference in their production (58%) and that mistakes were suppressed (69%)."

Also, the majority of respondents (59%) "did not agree that the Government uses official figures honestly when talking about its policies".
ONS, October 2004. www.statistics.gov.uk/about/data/public_confidence.asp).

I know of no evidence which suggests that public scepticism regarding official statistics in Scotland differs from that in the rest of the UK. Given that Scottish attitudes on most subjects tend not to differ substantially from those in the rest of the UK, it is likely that Scots are equally sceptical of official statistics. Further, most Scots probably do not distinguish clearly between statistics produced within Scotland and those produced in the rest of the UK.

The Bill provides for the setting up of a UK statistics Board comprising executive and non-executive members, which will have the objective of promoting and safeguarding the quality and comprehensiveness of official statistics. This would seem to fulfil the objective of increasing the distance between the producers and one of the major consumers of official statistics and hence, perhaps restore some public faith in official data.

How might the Statistics and Registration Services Bill apply to Scotland?
First, it is clear that if Scotland does not effect a parallel reorganisation of its statistical service, those statisticians in Scotland who remain within the Executive will be in an anomalous position relative to their counterparts in England. This may, for example, affect their opportunities for advancement within civil service statistical grades. Further, if Scotland does not follow the rest of the UK, the passing of information between the new organisation in England and the Scottish Executive is likely to be more problematic than under the current arrangements.

Second, if the production of statistics in Scotland were also to fall under the control of the Statistics Board (or a Scottish equivalent), then the existing Analytical Service Divisions (ASDs) might have to restructured.

The current arrangement is that there is one ASD for each major department. It is staffed by statisticians, economists and social researchers. Their role is essentially to service their policy clients within the relevant Department. This means that ministers, in combination with administrative civil servants, exert considerable control over the agenda of the ASDs.

This arrangement has the advantage of providing a close link between policymakers and those collecting and interpreting the evidence on which new policies are constructed.
What are the disadvantages of the existing arrangements?

(1) They fail to ensure the *comprehensiveness* of official statistics. Let me give some examples:

In 2004, according to the Agricultural Census, 10.69 hectares of kale and cabbage were grown for stock feed in Shetland. However, in respect of free personal care, one of the flagship policies of the Scottish Executive, the estimates of spending in 2004 are subject to a considerable margin of error.

Why do we know a lot about kale and cabbage and not so much about free personal care? This is at least partly the result of a somewhat bizarre allocation of resources to statistics within the Scottish Executive. Historically, much data has been collected on

agriculture. But agriculture is now a relatively small industry. In contrast, social care statistics have tended to be treated as a Cinderella area, very much the poor relation to the substantial statistical effort expended on health.
Yet projections of the ageing of the population suggest that social care will be of growing importance over the next few decades. Evidence-based policy in this area will require good quality data. Unless we have a more *comprehensive* view of the statistical needs of Scottish society over the next few decades, it is unlikely that such evidence will become available. The existing arrangements of ASDs, with their departmental and historic focus will not necessarily produce the comprehensive set of statistics that Scotland requires.

The existing arrangements where large scale surveys are essentially sponsored by single departments is also not necessarily the best arrangement to ensure comprehensiveness. Take for example the Scottish Household Survey and the Scottish Health Survey, which are sponsored respectively by the Development Department and the Health Department. The Household Survey is very strong on questions relating to transport but has historically been weaker on topics such as income and wealth. The Health Survey is strong on health indicators, levels of physical activity and consumption of food and drink, but is not strongly populated by questions on the social and economic circumstances of the household. Both of these outcomes, it seems, largely result from the arrangement of ASD by department.

A semi-independent board, at arms length from the immediate policy concerns of the Executive, could take a more strategic and comprehensive approach to the data requirements of Scottish society, the Parliament and the Executive. For example, it might take action regarding the anomaly that Scotland has two cohort studies of young children but is the only part of Western Europe which has no cohort study of older people.

(2) They do not offset the perception that in Scotland the statistical agenda is controlled by policymakers.

The distinction between ASDs and their policy clients is probably poorly understood outside the civil service. Thus policymakers and statisticians are not readily distinguished by those who have no substantial contact with the Scottish Executive. Confusion over roles cannot help build public trust in the quality of official statistics.

(3) The existing arrangements do not aid the perception that statistical services in the Executive are insulated from recent developments in statistics.

If statisticians responsibilities are primarily to their policy clients then the contact with recent developments in statistical practice are likely to be weakened. This may not be a problem. The Executive might take the view that the role of statisticians is mainly to produce rather than to interpret statistics. But this runs a considerable danger. This is that statisticians within the government service become isolated from recent methodological advances. Current examples, which could be, crucially, on executive policy include the huge developments that have been made in recent years in policy evaluation using statistical methods and in microsimulation.

The close linkage between policymakers and statisticians in the Executive may mean that the statisticians restrict themselves to interpretations of statistics with which they feel that their policy clients will be comfortable.

While this may seem a very arcane debate, it has very practical consequences. Take for example, the interpretation of the evidence in relation to investment in education. The statistical methods used by Professor Heckman, one of the contributors to the Allander series and also a Nobel laureate in economics are extremely complex. But that complexity is necessary to convincingly show that intervention as early as possible in a child's educational development leads to the highest return in terms of future social and educational outcomes.

If the operation of the Statistics Board in Scotland meant greater focus on continuing professional development for statisticians, then there would be undoubtedly a number of wider benefits to the Parliament in key areas such as policy evaluation and development.

Would the proposed structure work?

In this section, I attempted to respond to part (c) of the Finance Committee's request. But rather than trying to answer this hypothetical question directly, let me make a comparison with Norway, which is an example of a country of similar size to Scotland that has an independent statistical service. (The Aims and Objectives of Statistics Norway are listed in Appendix A).

Statistics Norway is a professionally autonomous institution under the Ministry of Finance and has an executive committee appointed by the government. Its objectives were set out in the Statistics Act of 1989. It contracts with government and other bodies to produce a range of statistics. Last year it made a small profit. It has a staff of 950. It has to produce a wider range of statistics than the Scottish Executive, because of its wider range of responsibilities. It also provides help to developing countries national statistics agencies.

In contrast to the public's view of UK statistics, Statistics Norway has the trust of the Norwegian public:

> *"The current situation in Norway is that we are almost never put in a negative light in the media, so we don't therefore need to spend time and energy on defending ourselves." Statistics Norway – Paper Presented at the Joint UNECE/OECD Work Session on Statistical Dissemination and Communication, 2005*

Such trust has to be worked on, even though the arm's length arrangement from government must help. It emphasises quality, visibility and honesty in its external communications, and also prides itself on being innovative in areas such as data collection and dissemination. It also has a very active research department, with staff, for example, publishing articles in the Scottish Journal of Political Economy, something which no Scottish civil servant has done for a very long time.

The Norwegian example suggests that it is possible to have a successful and trusted statistical service in a small country of around Scotland's size. I suspect that its arms length arrangement with government is a necessary, but perhaps not sufficient, condition for this to happen.

However Scotland is not an independent country, and I would expect that some special arrangements would have to be put in place to make the proposed UK legislation effective in a devolved context. While the data requirements of Scotland and the rest of the UK largely overlap, there are significant differences in institutional and social structures which would have to be recognized and taking account of by the Statistics Board.

It is difficult to avoid the conclusion that some additional organisation would be necessary within Scotland to carry out some of the functions of the UK Board. Thus, rather than responding directly to the UK Statistical Board, Scottish statisticians would work to a devolved Statistical Board which would have crossed linkages to the UK Board and would also involve executive and non-executive members. The Board would have to balance the interests of business, local authorities and other interested groups in setting its priorities as well as looking to future developments in Scottish society to identify and information gaps.

The resource implications of the creation of a Scottish Statistical Board would have to be clarified before being implemented. The executive would want to retain some analytical capability. But it would be important to minimise any overlap and ensure co-operation between those economists and statisticians who remain within the Executive and those working for the Statistical Board. These problems will have to be confronted by UK government departments, from whom lessons can perhaps be learned before implementing any change in Scotland.

In conclusion, while I believe that resource implications and issues of coordination between the Scottish Executive and the Statistical Board have to be considered carefully, I believe that the advantages of the proposed Statistical Board are likely to outweigh the disadvantages, since the current arrangements breed a lack of trust in statistics which undermines the effort of many dedicated public servants.

Appendix A: Statistics Norway Aims and Objectives:

Aims	Official statistics and analyses based on these statistics shall give the general public, businesses and the authorities knowledge of the structure, development and functioning of the society. Such knowledge strengthens democracy and provides a basis for a sustainable economic, social and ecological development. To fulfil this task, official statistics have to be produced on an independent basis, be of high quality and be widely spread as a public good for the benefit of society as a whole.
From data to knowledge An institution that counts	During recent years the flow of data and information in the society has dramatically increased. It has become more difficult to distinguish information that gives knowledge from false information, unfounded statements and unimportant noise. Here official statistics play an important role. Several public institutions produce official statistics, but Statistics Norway is the central Norwegian agency for collection, compilation and dissemination of such statistics. Statistics Norway will work to cover national and international needs for official Norwegian statistics and analyses based on these statistics.
Responsibility for coordination of official statistics	According to the Statistics Act Statistics Norway is responsible for: Mapping and giving priorities to the needs for official statistics Coordinating statistics that are produced by governmental agencies Developing statistical methods and exploit statistics for research and analyses Give information for statistical use for research purposes and governmental planning Having the main responsibility (from the Norwegian aspect) for international statistical cooperation
Independent role	The Statistics Act also underlines that Statistics Norway is an independent institution when it comes to the content of its statistics and analyses. Statistics Norway decides on an independent basis what the institution is to publish of official statistics, and when and how this will be done. This independence of authorities and interest groups is necessary for the credibility and the authority that official statistics must have in order to fulfil its role in the Norwegian and the international society. At the same time data security and the protection of personal integrity are preconditions for trust by the data providers and hence for the work of Statistics Norway.
Values	The values of Statistics Norway support the general principles of official statistics, and can be summed up as follows: User orientation. Users require high quality statistics and analyses (statistics must be relevant, accurate, timely, comparable, coherent and available). Integrity. Statistics Norway is to be objective, treat all users equally, and protect the data providers.

Efficiency and renewal. The resources are to be utilized as well as possible, and Statistics Norway will adjust the content of statistics and production methods in time with the development of society.

Statistics must reflect the society

Changes in society must be reflected in the statistics. Important issues at the start of the millennium are the development of the service and information society, with integration of markets across borders and movement of labour force. The economy is deregulated, and more emphasis is put on market solutions than on central planning. There is also an increasing focus on social conditions, distribution aspects and environment. This development entails new needs for statistics, which will be the basis for Statistics Norway's priorities.

Major changes in the statistics

Statistics Norway will base its priorities of the content of the official statistics on:

Statistics on structure and development of Norwegian economy are necessary as a foundation for public debate on the economic development and for the implementation of economic policy.

Statistics on population and social conditions are of basic significance for the understanding of the society and for the implementation of policy linked to social and economic conditions.

Environment statistics are a basis for international agreements and national action plans in addition to the public debate.

Services constitute an increasingly larger part of Norwegian economy. Information technology and knowledge play an important role in this context.

The need for information as a basis for management and knowledge of the public sector's use of resources requires good statistics in this area. Statistics and analyses for comparison of municipalities and institutions are important.

The business sector is important both as a user of statistics and as a data provider.

Own research will give knowledge about the functioning of the Norwegian economy and social processes, in addition to contribute to improve the quality of the statistics.

Globalisation has increased the need for international statistical comparison and standardisation. This can also be looked upon in connection with increasing national obligations in adherence to demands from the European Union.

Quality of statistics

Quality requirements are also reflected in how statistics are produced and disseminated:

Official statistics and research results will as a public good be free of charge and available at the same time for everyone through the Internet. Users will be able to select and put together statistics themselves. International statistics will also be presented.

Statistics Norway will cooperate with others on production and dissemination of official statistics where this is advantageous for the users and profitable for the society. This will also contribute to a coherent system of statistics with common requirements for quality and independence.

Statistics are to be timely, accurate, comparable and coherent. It must be possible to describe the long trends in society development and to compare countries, businesses and groups of persons.

Research will be kept on an international high level

Statistics Norway will cooperate with data providers and owners of registers, and the response burden is to be kept at a reasonable level. It is an objective that as much as possible of the data reporting will happen by direct extraction from the data systems of the data providers. There is to be an opportunity for everyone to report over the Internet.

Statistics Norway will carry out its tasks cost efficiently, professionally and with strong emphasis on independence, data security and innovation.

SUBMISSION FROM PROFESSOR RICHARD HARRIS

Dear Ms Wheeler

I have read the documentation you sent (and indeed I read the Bill before the Westminster Parliament as well). I have little to say but rather than say nothing, I am sending you this email. I am a major user of statistics, and do a lot of research using statistical analysis and so the issue is an important one to me.

I think the creation of an independent Statistics Board is a considerable improvement on current ONS/Statistics Commission arrangements. I can see no issues that arise that would have a negative impact on the creation and dissemination of Scottish statistics - indeed the oversight and expertise that would come from the new Board would be helpful. I think the checks and safeguards proposed with regard to Scottish data that is produced for devolved purposes are sufficient.

So, in summary, I personally would agree with the position that Scotland should have a Sewel Motion on this matter, with no changes to the Bill.

SUBMISSION FROM INFORMATION SERVICES DIVISION

EVIDENCE for UK STATISTICS AND SERVICES BILL

Thank you for the opportunity to provide input for the legislative consent memorandum on the above bill. As the lead organisation for statistics on health and care in Scotland, we have extensive experience of working under the current National Statistics protocols and in general welcome the UK Bill, with the intention to improve public confidence in official statistics.

We would wish to respond to the committee's questions as follows:-

a. *Are the provisions necessary?*

Yes, since the system we have been operating under since 2000 has failed to improve public confidence in official statistics. In the Scottish health sector the independent, neutral and honest presentation of statistics is often lost in the middle between opposing interpretation poles. On the one hand the media and political opposition concentrate on negative themes and interpretation. The SE and Ministers naturally press for any positives to be highlighted. These varying views can but undermine confidence in the integrity of official health statistics. It is in fact recognised from ONS surveys that public confidence in NS is low, and the evidence is that within GB the Scottish public has least respect for official figures.

In ISD's case we find it difficult to steer a neutral course when publishing statistics especially so because most of the statistical collections and new developments have the SE as the main sponsor. Although ISD `has a steering group to direct it in terms of prioritisation in use of resources it meets only briefly in early Spring and does not provide any oversight of statistical integrity. Neither does it have the breadth of membership to give public confidence in ISD's outputs. The other overseeing group is the SCOTSTAT health committee. This has not been a particular success and has been very much a token arrangement under NS.

So an overhaul of NS with new provisions is to be welcomed if it can help renew ISD accountability for a professional, hopefully independent as much as it can be statistical service. It is very important that non-NS are brought under the umbrella too or there could be a perverse incentive to invest in management statistics. This is particularly so w.r.t. performance management information, which needs to be produced as near to real time as possible and undergoes less quality assurance than N.S. So it is important that NS continue to be produced to validate and account for performance while not obstructing the management need for more immediate information to inform decision-making. The current code of practice for production and quality assurance of national statistics has been cumbersome and mainly focussed on activity within the Office of National Statistics, which at times failed to recognise the distributed nature of the statistical system within the UK.

Health, Education and Justice Statistics are prime examples of statistical outputs delivered from separate Policy departments, (and Non Departmental Public Bodies) within England, Scotland, Wales and Northern Ireland. There needs to be a UK body with the power to require harmonisation of statistical outputs to support public scrutiny of policy initiatives across the UK.

The Statistics Commission has had little impact in Scotland, although activity has noticeably increased in the last 2 years. We would hope that the new Board would have a much higher profile in Scotland, and welcome that at least one member will be representing Scottish interests.

b. *Will they reinforce the integrity, independence and quality of statistics produced in Scotland?*
   The critical issue here is the content of the Code of Practice and the requirement that all producers of National Statistics adhere to the new code. This will require much closer scrutiny that heretofore if integrity, independence and quality are to be underpinned. We would suggest that an appropriate Committee of the Scottish Parliament should be actively involved in the consultation on the draft code when it is available. It might also be an appropriate mechanism for continued assessment of the integrity, independence and quality of Scottish devolved powers statistics under the powers of the Act and the independent scrutiny it introduces? The confidence of users of Scottish health statistics that they are of good quality and interpretation will depend upon freedom from political pressure not just the code of practice for statisticians. The SP Committee might therefore draft and promote a view as to how the standards should apply to Ministers and their officials, outwith those involved in statistics production.

   Reinforcing integrity and independence of statistics in Scotland is not something that will be achieved in the short term. In many ways it is confounded by the political system we operate in. As an arms-length producer of National Statistics we have experienced erroneous reporting by journalists, pressures from policy colleagues to make late changes to publications, increased workload from FOI requests for data, which are then used out of context. Our policy is to operate an 'honest-broker' role and feel that the draft UK Bill needs to make clearer the breadth of official statistics within the UK, and devolved parliaments / administrations.

   The Statistics Commission has frequently commented on 'early' release of National Statistics. Our experience is that the political system in Scotland encourages competition for 'scoops', particularly when government targets are being challenged. Under the current code of practice, and in response to FOI we have increased the availability of statistics on the web. At a recent UK Statistics Users Forum, positive comment was made that Scotland appeared to encourage public access to statistical data, and users welcomed increased availability.

   For some statistical publications we now receive a standard set of enquiries from political researchers, as soon as the statistics are updated. In some cases we have used these to improve the coverage of our release, but this is not always welcomed by Executive colleagues. Clearer direction on pre-release access and widening the general availability of statistics would be welcomed under the new code.

ISD have also experienced conflicts over disclosure of personal health data as covered by the Data Protection Act and the Scottish Freedom of Information Legislation. Concepts of statistical disclosure control are open to interpretation and we would welcome UK legislative cover for statistical use of confidential data

a. *Appropriate lines of accountability in Scotland?*

We would anticipate that laying a report before the Scottish parliament would ensure discussions in committee and the chamber, and provide an opportunity to gauge improvement in public confidence in the statistical system. It may provide greater independence if the designation of statistics as National Statistics is moved from Scottish Ministers to one of the committees of parliament.

b. *Is legislative consent motion appropriate?*

It would appear to be so, given our limited knowledge of the Scottish legislative process.

c. *Opportunity to engage with the Executive on this issue in advance of the introduction of the memorandum?*

No, but we will meet with the Chief Statistician later in January. We have discussed the implications at a meeting with the Registrar General and our senior statisticians in early December, and have been informed by Office of National Statistics colleagues, and the Statistics Commission on the progress of the Bill.

We trust that these comments are helpful, and would be willing to provide oral evidence to the committee if required. It is clear that building trust in the statistical system required closer working between bodies of parliament and the producers of National Statistics, who are not solely within the Scottish Executive. As we move to our third term of a Scottish Parliament, ISD would be willing to help with induction of new Committee, MSPs, and researchers into the availability, quality and fitness for purpose of Health and Care Statistics

Yours sincerely

Susan Burney
Interim ISD Director

SUBMISSION FROM DONALD MACRAE, LLOYDS TSB SCOTLAND

18 December 2006

These notes show responses from Donald MacRae of Lloyds TSB Scotland as requested by the Finance Committee of the Scottish Parliament on the provisions of the UK Statistics and Registration Services Bill and its potential impact on Scotland.

The provision of valid and reliable statistics is vital to the successful governing of a modern economy. Evidence based policy making cannot function without regular, reliable, independent and valid statistics.

The provisions of the Statistics and Registrations Services Bill, if fully implemented, will be beneficial compared to the existing system. This is not to say that current Scottish statistics are flawed rather that they will benefit from the “quality assurance” provided by the quality standard administered by an independent Statistics Board.

These provisions, if fully enacted, will achieve the aim of reinforcing the integrity, independence and quality of statistics produced in Scotland. However, it is unclear what standard will apply to all statistics produced in Scotland. It is conceivable that only a selection of statistics will be produced in Scotland to the quality standards envisaged by the Statistics and Registration Services Bill.

I endorse the proposed non-ministerial departmental structure proposed to give accountability in Scotland. It is important that Scottish shares of current UK wide surveys are maintained to the same quality as produced for the UK as a whole. It is important that areas of particular Scottish interest can be well represented.

I do believe that the legislative consent motion is an appropriate means to legislate on this issue.

I have had the opportunity to engage with the Scottish Executive in advance of the introduction of the memorandum.

Donald J. R. MacRae
Lloyds TSB Scotland

SUBMISSION FROM CHRIS MITCHELL, REPRESENTATIVE OF SCOTTISH NEIGHBOURHOOD STATISTICS GROUP ON SCOTSTAT BOARD

I write as a member of the Scotstat Board at Rob Wishart's behest and am grateful for the opportunity to comment on this Sewell motion. I am also grateful for the extra time to comment - hope you had a good festive period too!

I have taken soundings amongst community planning colleagues on the proposal to establish a Statistics Board for the UK including Scotland. My comments, which are structured around the specific questions put in your letter, are nevertheless my own.

a) Is it necessary and likely to improve on the present?

Yes I would support the proposal for a Statistics Board and see benefits in both perceived independence and opportunities to achieve consistency and consensus across the UK on 'National Statistics'.

b) Will it achieve the aim of reinforcing the integrity, independence and quality of statistics produced in Scotland?

Scotland has seen in recent years a number of statistical developments tailored to our specific needs and circumstances. These have proved to be relevant and valued, and have helped improve the evidence base for public policy management and academic research and analysis. Frequently these have drawn on experience and indeed good practice elsewhere in the UK e.g. in deprivation analysis, and applied the lessons within a Scottish context. Whilst there are no doubt benefits from consistency in definitions etc. there are also benefits in fitting Scottish administrative and legal frameworks. It is therefore suggested that the Statistics Board should operate with a light touch to enable local and not necessarily standardised UK definitions and solutions. The joined up thinking that lead to Datazones for small area analysis, Scottish Neighborhood Statistics, the Scottish Index of Multiple Deprivation and more recently emerging area resource analysis developments has been based on good co-operation between the Executive, GROS, local authorities, health boards and academics. The new Board will need to find ways of sustaining the successes of devolution and fostering flexibility further to deliver innovation around local solutions. At the same time the benefits of being part of a UK approach will also need to be drawn down to the local level.

c) Whether the proposed non-ministerial department structure will have appropriate lines of accountability in Scotland for its purpose?

It would appear to have formal accountability to Scottish Ministers and Scottish Parliament. However I have not seen any reference in the memorandum nor any paper from the OCS as to the implications for existing structures such as the Scotstat Board and Committees. These provide routes of accountability to the providers and users of statistics but there is no indication whether this would be valued, required or sustained. Some comfort in this respect or at least acknowledgement of the continued role of Scotstat would be helpful otherwise the new Board would risk becoming remote, out of touch and consequently less effective.

d) Whether you consider a legislative consent motion to Parliament to be the appropriate means to legislate on this issue?

Yes

e) Whether you have had an opportunity to engage with the Executive on this issue in advance of the introduction of the memorandum?

Not to any significant extent.

Trust you will find these comments helpful.

Yours etc.

Chris Mitchell
(Representative of Scottish Neighborhood Statistics Group on Scotstat Board)

SUBMISSION FROM ROYAL STATISTICAL SOCIETY EDINBURGH LOCAL GROUP

RSS Edinburgh Local Group Response to request to give written evidence on the provisions of the Statistics and Registration Services Bill which impact on Scotland.

Alan Forrest, Chairman

7th January, 2007

Drawing on responses and advice from:
RSS Edinburgh Local Group Committee
Andrew Garratt, RSS London
RSS Consultation on Independence of Statistics, Edinburgh venue 30th May, 2006

1. In her letter, 8 Dec 2006, Rosalind Wheeler invited the Edinburgh Local Group of the Royal Statistical Society to give written evidence on the provisions of the Statistics and Registration Services Bill which impact on Scotland.

2. This is the response from the Edinburgh Local Group. The opinions here are not necessarily those of the Royal Statistical Society as a whole.

3. The RSS has already made public its views on the Statistics and Registration Services Bill http://www.rss.org.uk/docs/Statistics%20and%20Registration%20Services%20Bill%20-%20RSS% and has given formal evidence, both written http://www.rss.org.uk/pdf/RSS%20response%20to%20Treasury%20consultation%20on%20independence%20for%20statistics.pdf and oral, to the Finance Select Committee at the Houses of Parliament, London. The RSS has also expressed general views on the role, development and future of Government Statistics http://www.rss.org.uk/main.asp?page=2616

4. We put these documents to the Finance Committee as evidence, as many of their general points apply equally well to Scottish and UK Statistics, and several points deal explicitly with devolved Statistics. We quote some of these below.

5. In addition to this evidence, the Edinburgh Local Group wishes to add or emphasise some points that are specially relevant to the Scottish legislative consent of the Bill, as follows:

6. We believe the provisions will benefit Scottish National Statistics. The inclusion of Scottish National Statistics in the proposals will demonstrate that Scottish National Statistics are produced to a common UK standard, produced independently and subject to independent scrutiny. This will reinforce the integrity, independence and quality of Scottish National Statistics. Failure to include SNS in the proposals would give the opposite impression, whether or not this would actually be the case.

7. In connection with a common UK standard, we agree with Sections 12-13 of the RSS written response

http://www.rss.org.uk/pdf/RSS%20response%20to%20Treasury%20consultation%20on%20independence%20for%20statistics.pdf insofar as they remain relevant to the current state of the Bill.

> "12. **The system should be UK based and involve the Devolved Administrations:** European and international commitments require a focal point (the National Statistician) and domestic needs demand an ability to produce coherent UK-wide statistics and the ability to make valid comparisons between the countries of the UK. The whole system should take account of the needs of all users including the administrations and citizens in devolved territories.
>
> "13. The current arrangements have not delivered coherent statistics across the UK. In our view the situation is serious and worsening. This causes a problem both for those seeking information at a UK wide level and for the Devolved Administrations and others wishing to make comparisons across the UK. It impedes assessment of the success of devolution itself. It risks putting the UK in breach of its duties to the European Union. We do not agree that the existing concordat meets the requirement."

8. The two other options for Scottish National Statistics are not attractive: either a separate Scottish Board whose role and demarcation would be difficult to manage and which might be more expensive: or a system with no such Board which would be worse than current arrangements where there is a degree of scrutiny by the Statistics Commission.

9. The ability to share comparable information, for statistical purposes, with other Government Departments should have considerable benefits for Statistics in Scotland.

10. Nevertheless, we are concerned that a UK-wide statistical standard might be applied rigidly and insensitively to areas of statistics that have a fundamentally different basis in Scotland. This concern was expressed by senior members of Scottish National Statistics at the RSS Consultation Meeting in Edinburgh (30^{th} May 2006 http://www.rss.org.uk/main.asp?group=&page=1333&event=252&month=&year=&date

11. For example, Scottish Criminal Justice Statistics are not always comparable with those of England and Wales because of the basic differences in their Legal Systems; not only the numbers themselves require qualification but the statistical structures or tables in which these numbers are presented as well. A UK standard for such statistics would put artificial strain on their presentation and interpretation unless it were, in effect, two standards. In this example, a double standard of presentation is probably the only true and pragmatic solution.

12. We wish our view on this matter to be put on record for the proposed Board: that, in general, fundamental or unavoidable incompatibilities between Statistics on each side of the Border, such as the example above, should be noted by the Board and acted on sensitively.

13. This view does not require a change of legislation and so a legislative consent motion to the Scottish Parliament seems the simplest way to ensure the desired aims of the

legislation regarding Scotland.

14. In summary, we believe that the extended role of the Statistics Board would give benefit to Scottish National Statistics, both in setting and monitoring standards of Scottish National Statistics and in including Scotland in the provisions for joined-up and reciprocal information sharing.

SUBMISSION FROM SCOTTISH ENTERPRISE

You recently emailed my colleague Patrick Watt in Scottish Enterprise's Futureskills division seeking views on the provisions of the Statistics and Registration Services Bill.

The comments below are SEn's view on the legislation i.e. in response to Annex A of the Executive's consultation. SEn's view on the bill's other proposals i.e. Annex B will follow in due course.

We welcome any proposals that improve the relevance, timeliness, integrity and quality of UK and Scottish statistics. We therefore support the contribution that the Statistics Board could play in setting and monitoring the standards of Scottish statistics to demonstrate that Scotland's statistics are produced to high standards and subject to independent scrutiny. In this regard we support the adherence to international standards in the production of statistics.

Finally, we welcome any plan to strengthen consultation about the scope of official statistics and the opportunity to work in closer partnership with others in the public sector to improve Scottish statistics.

Yours sincerely

Michael Cannon
Director, International & Parliamentary Liaison

SUBMISSION FROM SCOTTISH INFORMATION COMMISSIONER

Thank you for your email of 11 December in which you sought written evidence on the provisions of the above UK Bill which impact on Scotland. I note that the Finance Committee has been referred a legislative consent memorandum on the Bill which would extend the role of the proposed Statistics Board to setting and monitoring the standards of statistics produced by the Scottish Executive. I welcome the intent of the Bill to reinforce the independence, integrity and quality of statistics produced in government.

The proposed independent Statistics Board would be established as a non-ministerial department of the Westminster government and therefore subject to the provisions of the Freedom of Information Act 2000. Should the Board receive an information request concerning the independence, integrity and quality of Scottish Executive statistics, the request would be dealt with under the UK freedom of information legislation and any subsequent appeal would be made to the (UK) Information Commissioner, not to me.

The Chief Statistician of the Scottish Executive produced guidance on the Freedom of Information (Scotland) Act 2002 before it came into force. I was pleased to be consulted about the guidance and to have the opportunity for input in its development. I imagine it would be unlikely that the proposed Statistics Board as a UK authority would similarly involve me in the development of guidance, even though that guidance might impact on Scottish government information.

Yours sincerely

Kevin Dunion
Scottish Information Commissioner

SUBMISSION FROM SCOTTISH PUBLIC SERVICES OMBUDSMAN

4 January 2007

Thank you for asking me to comment on this UK Bill. My key interest in this piece of legislation is whether the Statistics Board which it would create should, when taking actions concerning Scotland, fall within my jurisdiction. (This is an issue which Mark Ballard MSP raised when your Committee took evidence from the Deputy Minister for Finance, Public Service Reform and Parliamentary Business on 12 December.) I shall therefore limit my comments to point e) as set out in your letter of 11 December. But before I do so it may be helpful if I explain my office's jurisdiction and how it might relate to the Statistics Board.

My office was established by the Scottish Public Services Ombudsman Act 2002 to investigate complaints from members of the public who feel they have suffered hardship or injustice as a result of maladministration or service failure by providers of public services in Scotland. Schedule 2 to the 2002 Act lists bodies within my jurisdiction. Part of schedule 2 lists cross-border public authorities about which I can consider complaints when the matter complained of is an action taken concerning Scotland and not relating to reserved matters. Schedule 2 lists 32 cross-border authorities including the British Library Board, the Design Council, the Forestry Commissioners and the National Consumer Council. Complaints about these bodies would generally fall within the jurisdiction of the Parliamentary Commissioner for Administration (the Ombudsman for UK government departments and agencies) when they do not concern Scotland and devolved Scottish matters. It seems to me that the proposed Statistics Board is likely to be another such cross-border authority. Clause 60 of the Statistics and Registration Services Bill provides for the Board to be within the Parliamentary Commissioner's jurisdiction. For it also to be placed within my jurisdiction when acting in a devolved context it would need to be added to schedule 2 to the 2002 Act, which could be achieved by Order in Council.

Point e) in your letter of 11 December asked whether I had had an opportunity to engage with the Executive on this issue in advance of the introduction of the memorandum. The short answer is `no'. The Bill and its potential implications were fortuitously drawn to my attention by an interested academic. I have a concern that the Scottish Executive could sometimes be more proactive in identifying the potential impact of legislation (both that originating in Westminster and in the Scottish Parliament) on offices such as mine and engaging with us at an early stage. It is difficult for us as a small office with very limited resources to track all legislative proposals which may have an impact on us. While I do not consider that this particular Bill has any significant implications for my office there have been other cases where earlier consultation could have been productive. An example is the complaints handling arrangements introduced by the Water Services etc (Scotland) Act 2005. It seems to me that these are potentially confusing for the public as well as having cost implications. I shall again ask the Executive to consider how consultation on such issues might be improved.

Yours sincerely
Professor Alice Brown

SUBMISSION FROM STATISTICS COMMISSION

9 January 2007

I understand that the Legislative Consent Motion relating to the above Westminster Bill is to be further considered by the Finance committee at its next meeting on 16 January 2007.

My purpose in writing is both to draw your attention to the comments the Statistics Commission has made in response to the consultation on this matter and to let you know that representatives of the Commission would be available to give oral evidence to the committee at its meeting on 16 January if that is required. Unfortunately I personally have a long-standing commitment on that day, but Commission member Isabelle Low and our Chief Executive, Richard Alldritt, will both be in Edinburgh and available.

Our comments on the legislation are as below and in the enclosed briefing document.

The Statistics Commission very much welcomes Scottish Ministers' intention to extend the 'scrutiny and standards' aspects of the *Statistics and Registration Service Bill* to Scotland, as indicated in the Legislative Consent Memorandum. We believe that UK wide scrutiny and standards have the potential to benefit all parts of the UK.

We note that the consultation paper also acknowledges the benefits that such scrutiny can bring. We similarly share the consultation paper's recognition of the value of cross-border comparison of statistics and the need to address problems of inter-administration comparability. We believe that the new arrangements will support improvements in this respect - although they may need to be supplemented by further non-statutory agreements and arrangements to achieve this.

Legislation offers an opportunity to enhance the value of official statistics as well as strengthen public confidence in them. It should, for example, support coherent, systematic planning of statistical services across all producer bodies to meet the needs of decision-makers - inside and outside government. In doing so it will encourage more helpful written commentary to accompany the published statistics and promote more effective, clear communication with users of statistics and the public, helping them to find and understand the figures and advice they need.

We will comment in due course on the other proposals that have been issued for consultation in relation to improving statistical services in Scotland; but we support the intent to use legislation as a springboard for improvement.

We attach a public briefing note that the Statistics Commission has prepared on the Statistics and Registration Service Bill. We would draw particular attention to two elements of this statement, which are relevant to the position in Scotland.

The first is that we believe that the value of, and confidence in, statistics will best be enhanced if a strong Code of Practice is seen to apply to all government bodies producing official statistics (and to all of the statistical work of those bodies). In particular, the decision to assess compliance with the Code should not be matter of invitation from Ministers, contrary to what the Bill currently proposes.

The second is that public confidence will best be enhanced if the rules for pre-release access to official statistics are determined by the Board as part of the Code of Practice, not -as the Bill proposes -determined separately by Ministers.

Please contact us should you wish to discuss the matter further.

Yours sincerely

Professor Donald Rhind

STATISTICS COMMISSION – BRIEFING – revised 5 January 2007

This briefing note is in three parts:

- Observations on the Bill
- Suggested amendments
- Supplementary note on the Code of Practice and its application

OBSERVATIONS ON THE BILL

The Statistics Commission strongly welcomes the intent of this Bill, to create an independent board to enhance confidence in government statistics. The Bill will establish a new Statistics Board which will subsume the Office for National Statistics (ONS) and become a non-ministerial department in its own right whilst remaining within the overall responsibility of the Treasury, in much the same way as Her Majesty's Revenue and Customs. In effect the new Board will replace:

- the statistical functions of the Office for National Statistics
- the oversight role of Treasury Ministers in relation to ONS functions
- the independent Statistics Commission.

Done right, this should provide genuinely independent oversight of the production and publication of official statistics and thus give the public good reason to trust the statistical service. Among the welcome provisions of the Bill is the non-executive majority on, and chair of, the Board and the broad scope of its responsibility for statistical governance. That Board will bring increased authority to the dealings ONS has with the rest of government and we believe this is a necessary and important step forward. We welcome also the 'non-ministerial' status of the new body; the authority of the Board to approve and maintain a Code of Practice; and the moves towards improving access to, and use of, administrative data held across government to enhance statistics and minimise the compliance burden.

We are however concerned that the Bill as presently drafted:

- does not secure a sufficiently clear separation of executive and scrutiny roles;
- gives the Board responsibility for, but not authority over, official statistics in government bodies other than ONS;
- does not place government bodies under an explicit obligation to observe the Code of Practice;
- continues to let Ministers - rather than the Board on behalf of Parliament - determine the rules for access to statistics before they are published.

The independence of the Board

The Bill as presently drafted gives the Board both a scrutiny role[1] over all government statistics and an executive role[2] in producing some statistics.

The Statistics Commission believes that it will be essential for the Board to focus primarily on its role of 'defining the rules', monitoring compliance with them and assuring Parliament on these matters. We understand that government expects the Board to delegate[3] all responsibilities for the production of statistics to a new 'executive office' under the National Statistician (to replace ONS). We agree that the National Statistician must not be involved directly in the scrutiny function. She must however be given formal responsibility for the overall planning, production and quality of statistical products.

In order to achieve this, we believe that the Bill should explicitly provide for a demonstrable separation of the governance and scrutiny functions of the Board from the production functions of the executive office. This separation must be beyond question. If it remains unclear where responsibility lies, neither the Board nor National Statistician will be able to function effectively or command the confidence of Parliament.

With these considerations in mind we have suggested amendments to clauses 6, 9, 18, 20, 21, 29 and 31 (see attached)

The authority of the Board

The Bill as presently drafted confers the **responsibility** to safeguard the quality of all official statistics[4] without commensurate **authority** over those statistics produced by government departments other than ONS.

The Board, in the form the Bill proposes, will only have sufficient authority to resolve shortcomings in statistical practice, outside ONS, if strongly supported by Government and Parliament. We note that the Government expects authority in practice to derive from the active engagement of Parliamentary select committees in matters raised by the

[1] Clauses 7 and 8
[2] Clauses 6, 18 and 53
[3] Clause 33
[4] Clause 7

Board[5]. Whilst the regular involvement of Parliament would be a powerful mechanism, we believe that more could still be done, both within the Bill itself and through the explicit commitment of Ministers to non-statutory arrangements, to strengthen the Board's authority.

We have suggested a new sub-clause under clause 10 to require all authorities that produce official statistics to observe the Code (see attached).

Code of Practice

The Bill requires the Board to develop a Code of Practice for National Statistics. The Code must be broadly drawn and cover matters such as resources, commentary and dissemination. If it is narrowly focused on statistical methods, even full compliance will not buttress public confidence. We therefore assume the Code will have coverage akin to the proposals that the Statistics Commission has now published for consultation[6]. The Bill should clearly state that the Code will be binding on all government bodies producing official statistics. It must also empower the Board to assess compliance as it sees fit. The Code must apply to the government body as a whole and to all the statistical work of that body.

We have suggested amendments to clauses 10 and 12, and deletion of clauses 13 and 16, to address these points. Should the concept of National Statistics be retained in the Bill, we would want to see the power to determine which statistics are so labelled resting with the Board rather than with Ministers. This is not currently reflected in our suggested amendments as we think it more logical to treat all official statistics according to the same rules. This would remove the need for some statistics to be identified as National Statistics and the rest to be classed as 'other official statistics'. Further discussion of the content of the Code of Practice and its application to all official statistics is appended as a supplementary briefing note.

Pre-release access

The Bill as presently drafted gives Ministers rather than the Board the power to determine the period of their pre-release access to official statistics[7]. The Statistics Commission would wish to see the Bill give this power to the Board, in consultation with Ministers. We believe that this is the only way of giving sufficient public assurance that official statistics are free from government "spin".

We have suggested deletion of clause 11 and part of clause 17 to address this.

More detailed observations on key clauses

The Statistics Commission has set out some more detailed observations on key clauses of the Bill in a separate document which can be found at

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[5] See *Independence for Statistics, The Government Response*, November 2006, paragraph 2.27
[6] A Code of Practice for National Statistics: Interim Report for Consultation, Statistics Commission, Dec 2006, http://www.statscom.org.uk/uploads/files/reports/Report%2031%20Code%20Consultation%20Dec%202006.pdf
[7] Clause 11

http://www.statscom.org.uk/uploads/files/other/SRS%20Bill%20clauses%20-%2018%20Dec.%2006.pdf

Non-statutory arrangements

Those measures more suited to **non-statutory** arrangements would include a strong concordat between the four UK administrations on how they will work together on statistics; explicit recognition by all four administrations that government departments are expected to follow the advice of the Board on the interpretation of the Code; and arrangements for direct access to the Prime Minister for the chair of the Board on matters of national importance.

SUGGESTED AMENDMENTS TO THE STATISTICS AND REGISTRATION SERVICE BILL

The independence of the Board

In clause 6(1) (a), page 3, line 34, replace “the Board” by “the National Statistician”

In clause 9(1), page 4, line 37, replace “The Board” by “The National Statistician”

In clause 18, page 8, replace “the Board” by “the National Statistician”:

clause 18 (1), page 8, line 15
clause 18 (2), page 8, line 17
clause 18 (3), page 8, line 19
clause 18 (4), page 8, line 21
clause 18 (5), page 8, line 23

In clause 20 (1) (a), page 9, line 11, replace “the Board” by “the National Statistician”

In clause 21, page 9, line 20, replace “the Board” by “the National Statistician”

In clause 29 (1), page 12, line 19, replace “chief executive of the Board” by “chief executive of the executive office created by virtue of clause 29(5)”
In clause 29 (1), page 12, line 19, add “and to be the government’s chief adviser on the planning, production and quality of all statistical products”.

In clause 29 (4), page 12, line 28, after “The Board may” insert “**not**”
In clause 29 (4), page 12, line 28, after “Statistician” insert “or any employee of the Executive Office created by virtue of 29(5)”
In clause 29 (4), page 12, line 29, delete “not” before “to exercise”

In clause 31 (4), page 13, line 26, delete “the Board” and insert “the National Statistician”

Aim of amendment
To secure a sufficiently clear separation of executive and scrutiny roles

The authority of the Board

Add new clause 10(4), page 5, line 16, “All authorities that produce official statistics must observe the Code of Practice, consulting the Board on matters of interpretation as necessary.”

Aim of amendment
To strengthen the Board’s authority in relation to official statistics

Suggested amendments continued…

Code of Practice

In clause 10(1), page 5, line 7, replace “Code of Practice for National Statistics” by “Code of Practice for Official Statistics”.

In clause 10(1), page 5, line 8, add “taking account of the principles set out in the European Statistics Code of Practice, the United Nations Fundamental Principles of Official Statistics and any other relevant international codes or agreements.”

Replace clause 12(1), page 6, line 11, with “The Board must, in accordance with this Part, assess and determine whether the Code of Practice for Official Statistics under Section 10 has been complied with by the relevant authorities.”

Delete clause 12(2), page 6, lines 15-17
Delete clause 12(3), page 6, line 18
Delete clause 12(7), page 6, lines 25-37
Delete clause 12(8), page 6, lines 38-40

Delete clause 13 entirely, (page 6, line 41 to page 7, line 14)

Delete clause 16 entirely, (page 6, line 33 to page 6, line 36).

Aim of amendment
To ensure the Code is broadly drawn, covers all necessary matters and applies to all the statistical work of bodies that produce official statistics.

Pre-release access

Delete clause 11 entirely, page 5, line 16 to page 6, line 9

Delete clause 17(4), page 8, line 9 to page 8, line 10.

Aim of amendment

To ensure that the Board, on behalf of Parliament and after consultation with Ministers, is empowered to determine the arrangements for pre-release access to statistics, as part of the Code of Practice.

STATISTICS COMMISSION - SUPPLEMENTARY NOTE ON THE CODE OF PRACTICE AND ITS APPLICATION

The Statistics Commission believes that the Code of Practice could be revised so as to apply to all official statistics without creating any significant additional burden on the bodies that produce the statistics. In December 2006, the Commission published an interim report on a revised Code[8] for consultation. The draft Code contained in that report is consistent with the requirements of the Bill in its current form and thus relates to National Statistics rather than the broader concept of official statistics, but it would require minimal change to apply to the latter.

The Commission's draft Code consists of nine principles, as set out below, each of which has associated with it a set of 'practices' that producer bodies would be expected to follow. Assessment of compliance against this Code would take account of the public interest in ensuring compliance. So obscure statistics produced as a by-product of departmental administrative processes that are of little public consequence would still be expected to comply with the principles but less so with the more specific 'practices'. Statistics of national importance, on the other hand, would be examined closely against every 'practice'.

The Code principles (from the Commission's draft)

1) Integrity: At all stages in the production and dissemination of National Statistics, the public interest should prevail over organisational, political or personal interests.

2) Relevance: The production of National Statistics should be planned so as to inform decisions in government, public services, business and the wider community. As far as possible National Statistics should be internally consistent, consistent over time, and compatible between producers.

3) Sound methodology and assured quality: The methods for the collection, processing, storage and presentation of National Statistics should accord with scientific principles and internationally recognised best practice and agreements. Quality should be monitored and assured independently following centrally determined procedures.

4) Value for money: The resources allocated to statistical work should be used optimally to deliver outputs that meet the needs of users inside and outside government.

5) Communication: Statistics and information about statistical processes should be published in a form convenient to users and in as much detail as practicable.

6) Accessibility: National Statistics should be equally accessible to all users

[8] A Code of Practice for National Statistics: Interim Report for Consultation, Statistics Commission, Dec 2006, http://www.statscom.org.uk/uploads/files/reports/Report%2031%20Code%20Consultation%20Dec%202006.pdf

7) Confidentiality: Confidential data collected or used for statistical purposes should be strictly protected and should not subsequently be used for non-statistical purposes.

8) Proportionate burden: The reporting burden should be proportionate to the value of the statistics to users and should not be excessive for respondents.

9) Adequate resources: The resources made available for statistical functions should be sufficient to meet the requirements of this Code.

In practice, many of these principles are not so much about the statistics themselves but rather about the way statistical work is approached. This again argues for a common Code for all statistical work. The Bill (clause 7) gives the Board the objective of promoting and safeguarding all official statistics. To do this effectively, it will need a Code that applies to all official statistics – the alternative of having two different Codes, one for National Statistics and one for the rest, would be confusing and complex.

It is also relevant here that some statistics that are not currently National Statistics relate to matters which could be of considerable public interest or concern. A few examples[9]

- Hospital bed availability and occupancy (annual)
- Cancelled NHS operations (quarterly)
- NHS Inpatient Waiting Times figures (monthly)
- NHS Workforce Vacancy survey
- NHS earnings survey
- Energy projections for the UK
- Business survival rates – businesses still registered for VAT after one and three years
- End of Month Prison Population count
- Armed forces medical discharges (included as national statistics prior to 2003)
- Council house sales, England (quarterly)
- Council tax and non-domestic rates collection rate figures, England
- Estimates of unauthorised migrant population
- Index of multiple deprivation, England

These arguments underlie the views expressed in this Brief about changing the application of the Code to cover all official statistics.

[9] drawn from a supplementary memorandum by the Statistics Commission to Treasury Select Committee, reproduced in House of Commons Treasury Committee, *Independence for statistics, Tenth Report of Session 2005-06*, ev 91-5

SUBMISSION FROM BARRY WINETROBE

Following your evidence session on 12 December on this matter, may I make the following brief points by way of a submission?

- ***Institutional model re Scottish devolved aspects***: I hope the Committee, especially in view of its close interest in the accountability and governance of public officers and bodies (including 'parliamentary commissioners'), will scrutinise further the scope for involvement of the Parliament in any activities, decisions, communications and other exercises of power by the Executive in relation to appointments (including re-appointments or removals etc) arising from this Bill. Ideally, this should include appropriate and active involvement of the Parliament *prior* to any decisions etc by the Executive (eg during the period when the Executive is being consulted by the UK Government), rather than merely being informed of them after the fact. If the Executive had pursued its own legislation on this policy area, within competence, its proposals would have raised the issue of whether any such body should be created on a 'parliamentary commissioner model, given the criteria in your own recent Report. As the Executive has opted for the 'legislative consent' route, this should not mean that there can be no discussion of whether any 'Scottish' members and activities of the UK-created body should not be at least subject to some form of equivalent appointment and accountability etc processes through the Parliament, as is competent and appropriate, and beyond those apparently proposed (eg in clauses 3 and 25).

- ***'Scottish public authorities'***: I also hope that the Committee will seek further clarification of the scope of the Bill in terms of the definition of 'Scottish public authorities', especially in clauses 63-64. The definition used seems to be the Scotland Act one in s126(1), ie

  > "Scottish public authority" means any public body (except the Parliamentary corporation), public office or holder of such an office, whose functions (in each case) are exercisable only in or as regards Scotland,

  While that excludes the SPCB, does it also exclude 'the Parliament' itself (which is regarded in some legislative provisions as a separate 'body', even if one without full legal personality), and any or all of the six 'parliamentary commissioners'? The definition may well be wide enough to include most of these bodies, but there may be an issue about the Scottish Parliamentary Standards Commissioner, as that post is appointed directly by the SPCB rather than by the Sovereign, and so, in that sense, be subsumed, like all 'normal' Parliamentary staff, in the SPCB exclusion. To what extent does the definition encompass 'quasi-parliamentary' bodies, such as the Scottish Commission for Public Audit (a statutory body), the Business Exchange and the Futures Forum? As the 1998 Act definition was devised, of course, before the proliferation of 'parliamentary commissioners' or creation of these other bodies, the present LCM scrutiny is an appropriate opportunity to clarify any potential uncertainties and ambiguities about the scope of the Bill in this respect.

- ***FOI/Ombudsmen etc***: I am not sure to what extent, if any, the provisions of the Bill re FOI/data protection (clauses 36-7) and the PCA (clause 60), overlap, override or perhaps even ‘ignore’/’forget’ relevant Scottish legislation and arrangements, especially the 2002 FOI Act and the existence of the SPSO respectively. I appreciate that some of this was raised during the 12 December meeting, but I hope further scrutiny of these issues will not only lead to appropriate statutory provisions in the Bill for which Consent may be given, but will also examine the inter-governmental discussions and consultations (including those with the SIC, SPSO etc), if any, which led to the present provisions as presented for Consent. As with the European & External Relations Committee’s follow-up on unsatisfactory aspects of the Consent process for what is now the Legislative & Regulatory Reform Act 2006, this latter point is important for the overall integrity and effectiveness of the reformed Consent processes in this Parliament (and reciprocal revised arrangements at Westminster). Your Committee’s experience of the Consent process on this present Bill may well be important evidence for any monitoring or review of the new Consent arrangements undertaken by the Procedures Committee or elsewhere in the Parliament in the future.

Deputy Minister for Finance, Public Service Reform and
Parliamentary Business
George Lyon MSP

January 2007

Convener
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Dear

STATISTICS BILL – FINANCE COMMITTEE MEETING - 12 DECEMBER 2006

At the Finance Committee, on Tuesday 12 December, I promised to provide you with further information on clauses 37 and 60 of the Statistics and Registration Service Bill.

To recap, clause 37 refers to the UK Freedom of Information Act and clause 60 refers to the parliamentary commissioner. Specifically a question was asked as to whether the Statistics Board, which is created by the Bill, should fall within the jurisdiction of the Scottish information commissioner and the Scottish public services ombudsman.

As the Statistics Board will be a UK body and as such will be subject to the Freedom of Information Act 2000 (FOI Act), it will fall within the jurisdiction of the UK Information Commissioner.

The Bill does not change the position for statistics held by Scottish public authorities - these will remain under the jurisdiction of the Scottish Information Commissioner and the Scottish Public Services Ombudsman (SPSO).

<u>Clause 37</u>

Clause 37 has a very narrow affect - it puts a limitation on the extent to which clause 36 operates as an absolute bar to disclosure under the FOI Act. The intention of clause 37 is to restrict this bar to the Board only. So if data is passed from the Board to a public authority the public authority cannot use clause 36 as a bar to disclosure under section 44 of the FOI Act, and therefore the public authority would have to consider whether the information should be provided under the terms of the other provisions of the FOI Act.

We agree that the Bill should refer to the Freedom of Information (Scotland) Act 2002 (FOI(S) Act) for data which is passed from the Board to a Scottish public authority to make clear that similarly clause 36 would not act as a bar to disclosure under section 26 of the FOI(S) Act, and we are asking the Treasury, assuming Clause 37 remains in its current form, to bring forward a suitable amendment during the Bill's passage.

Clause 60

This clause amends the Parliamentary Commissioner Act 1967 to include the Statistics Board. Officials in the Executive and Treasury are currently liaising on whether functions to be exercised by the Statistics Board that are relevant to Scotland should be open to scrutiny by the Scottish Public Services Ombudsman.

I hope that the Committee finds this information useful; I will keep the Committee updated on any changes with regards to these clauses.

GEORGE LYON

Cc – Susan Duffy (Clerk – Finance Committee)