



## FINANCE COMMITTEE

### AGENDA

**17th Meeting, 2014 (Session 4)**

**Wednesday 28 May 2014**

The Committee will meet at 9.30 am in the Mary Fairfax Somerville Room (CR2).

1. **Decision on taking business in private:** The Committee will decide whether to take items 4 and 5 in private.
2. **Scotland's public finances post-2014:** The Committee will take evidence from—  
  
John Dickie, Head of Child Poverty Action Group in Scotland;  
  
Bill Scott, Director of Policy, Inclusion Scotland.
3. **Nominees for appointment to the Scottish Fiscal Commission:** The Committee will take evidence from the following nominees—  
  
Lady Susan Rice C.B.E;  
  
Professor Campbell Leith.
4. **Annual Report:** The Committee will consider a draft annual report for the parliamentary year from 11 May 2013 to 10 May 2014.
5. **Legal Writings (Counterparts and Delivery) (Scotland) Bill:** The Committee will consider its approach to the Financial Memorandum of the Legal Writings (Counterparts and Delivery) (Scotland) Bill.

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The papers for this meeting are as follows—

**Agenda item 2**

Note by the Clerk (to follow)

FI/S4/14/17/1

**Agenda item 3**

Note by the Clerk

FI/S4/14/17/2

**Agenda item 4**

PRIVATE PAPER

FI/S4/14/17/3 (P)

**Agenda item 5**

PRIVATE PAPER

FI/S4/14/17/4 (P)

**Finance Committee**

**17th Meeting, 2014 (Session 4), Wednesday 28 May 2014**

**Scotland's public finances post-2014**

**Purpose**

1. This paper provides copies of the written submissions that have been received from the witnesses who will be providing evidence at this meeting in relation to Scotland's public finances post-2014. The submissions from the Child Poverty Action Group in Scotland and Inclusion Scotland are attached.
2. The topics agreed by the Committee for these evidence sessions are—
  - taxation
  - borrowing
  - public sector debt
  - fiscal rules.
3. The Committee has also agreed to hold evidence sessions to specifically consider pensions and the Barnett formula.

**Catherine Fergusson**  
**Senior Assistant Clerk to the Committee**

## SUBMISSION FROM CHILD POVERTY ACTION GROUP IN SCOTLAND

### 1. Context and background

#### 1.1. CPAG purpose and expertise

1.1.1. Our mission as the Child Poverty Action Group (CPAG) in Scotland is to work toward the prevention and eradication of child poverty. We seek to raise awareness of the nature of child poverty Scotland, the impact that poverty has on children and families and to influence policies in the interests of low income families.

1.1.2. We use our specialist expertise and knowledge of the social security system and its interactions with devolved sources of financial support for families to both inform our policy activity and to support frontline agencies help maximise the incomes of low income families across Scotland.

1.1.3. Wherever key powers lie after 2014 we believe there are clear principles that must underpin the approach to public finances at all levels of government if we are to end child poverty. However we do not claim to have expertise on wider issues of borrowing, public sector debt or fiscal rules.

#### 1.2. Child poverty trends and forecasts

1.2.1. One in five of Scotland's children are still officially recognised as living in poverty (200 000 children<sup>1</sup>). There is nothing inevitable about such levels of child poverty. Despite an improving position relative to other European countries<sup>2</sup> child poverty in Scotland, and across the UK, is significantly higher than in many countries. Using the measure used for international comparisons (based on income before housing costs are taken into account) 150 000 children in Scotland live in poverty - 15% of all children. In Denmark just 10.2% of children live in poverty whilst in Norway 9.4% do<sup>3</sup>.

1.2.2. Nevertheless it is important to note that, following huge increases in child poverty from 1979 to the early 1990's sustained progress was made from 1996/7 onwards. The reduction in child poverty across the UK was unprecedented, both in terms of our own history and compared with other industrialised nations<sup>4</sup>. In Scotland alone child poverty fell by 160 000 between 1996/97 and 2011/12, a 44% fall in total. Policy worked at UK and Scotland level – investment in child benefit and tax credits, the introduction of the national minimum wage, support for parents moving into work, improved employment rights and investment in early years and childcare all helped reduce levels of child poverty, and improve measured indicators of child wellbeing. That progress was

<sup>1</sup> <http://www.scotland.gov.uk/Resource/0042/00424793.pdf>

<sup>2</sup> See comparison with *Poverty in Scotland 2011* p70 Fig 5.3

<sup>3</sup> International comparisons are for 2011 on a before housing costs basis under which 15% of Scotland's children live in poverty. *Poverty in Scotland 2014* see Chapter 5 Figures 5.3, p90 and 5.6, p94

<sup>4</sup> [http://www.cpag.org.uk/sites/default/files/CPAG-Ending-child-poverty-by-2020-progress-made-lessons-learned-0612\\_0.pdf](http://www.cpag.org.uk/sites/default/files/CPAG-Ending-child-poverty-by-2020-progress-made-lessons-learned-0612_0.pdf)

sustained through the recession to 2011/12 as investment by the previous UK government protected low income families at least to some extent – their incomes did not fall as fast as median incomes.

1.2.3. However independent modeling by the Institute for Fiscal Studies now forecasts that, as a result of current UK government tax and benefits policy there will be massive rises in poverty in the coming years. In Scotland alone up to 100 000 more children will be pushed into poverty by 2020<sup>5</sup>. Welfare reforms and cuts mean that across the UK £20 billion<sup>6</sup> is being cut from family incomes, around £2billion in Scotland alone (much of it support for families in employment) undermining parents' best efforts to provide for their children.

### 1.3. Costs of child poverty

1.3.1. Research suggests that a 'cautious estimate' of the cost of child poverty to the public finances across the UK amounts to £29 billion per annum (as of 2013)<sup>7</sup>, a cost that will rise to £35 billion by 2020 if action is not taken to turn around the projected increases in child poverty forecast (see 1.2.3 above). Such costs to the public finances are of course in addition to the devastating human costs of child poverty.

1.3.2. Additional analysis for CPAG suggests the costs of child poverty in Scotland alone amount to around £3.5 billion. This includes money spent on services to deal with consequences of child poverty, money lost in tax receipts from people earning less as a result of having grown up in poverty and benefits for people spending more time out of work as a result of having grown up in poverty. In Glasgow alone approximately £395 million a year is spent on the consequences of child poverty<sup>8</sup>.

1.3.3. This analysis builds on previous work for the Scottish Government in 2008 that suggested the cost of child poverty in terms of additional spending on services alone was between £1/2 -3/4 billion a year in Scotland<sup>9</sup>.

### 1.4. Current child poverty commitments

1.4.1. It is within this context that CPAG welcomes the ongoing UK government commitment, and legislative duty under the 2010 Child Poverty Act, to eradicate child poverty by 2020 as well as Scottish Government commitments to do all within its powers to support that eradication and to mitigate the impact of 'welfare reform'.

<sup>5</sup> PiS 2014 p13/14 Figures drawing on <http://www.ifs.org.uk/bns/bn144.pdf> figures for Scotland (p27 table B.2 Column 1) The proportion of children living in relative child poverty (after housing costs (AHC) are deducted) is forecast to increase from 19.6% in 2011/12 to 26.2% in 2020 - between 50 000 and 100 000 additional children pushed into poverty by 2020. Using the government's preferred 'before housing costs' measure the forecast increase is from 14.8% to 20% - around 50 000 more children in poverty.

<sup>6</sup> <http://www.cpag.org.uk/sites/default/files/Bad%20Friday.pdf>

<sup>7</sup> [http://www.cpag.org.uk/sites/default/files/Cost%20of%20child%20poverty%20research%20update%20\(2013\).pdf](http://www.cpag.org.uk/sites/default/files/Cost%20of%20child%20poverty%20research%20update%20(2013).pdf)

<sup>8</sup> Local Authorities and Child Poverty: Balancing Threats and Opportunities; Child Poverty Action Group 2013

<sup>9</sup> [http://www.cpag.org.uk/sites/default/files/CPAG-local-authorities-child-pov-0713-amended\\_0.pdf](http://www.cpag.org.uk/sites/default/files/CPAG-local-authorities-child-pov-0713-amended_0.pdf)

<sup>9</sup> <http://www.scotland.gov.uk/Resource/Doc/210463/0055652.pdf>

1.4.2. The Scottish Government has recently published its second child poverty strategy<sup>10</sup> with an explicit recognition of the importance tackling child poverty must play within the broader commitment to a preventative approach to Scottish Budget decision making. CPAG has welcomed the broad thrust of the Child Poverty Strategy for Scotland but is calling for further detail on the specific outcomes that will be achieved and by when, and clarity on the expectations and accountability mechanisms that will ensure action across all areas of the Scottish Government and at local government level is taken, and budgets directed, toward delivery of the strategies objectives.

1.4.3. CPAG has particularly welcomed the Scottish Government Solidarity purpose target and the recognition of the importance of working toward greater income equality. Tackling underlying income inequalities is fundamental to addressing the unusually high levels of poverty, and associated negative social outcomes, that Scotland (like other parts of the UK) faces. However as yet income inequality has not fallen and recent and projected trends suggest that without substantial policy changes it is unlikely that income inequality will reduce dramatically<sup>11</sup>.

## 1.5. Scotland's wealth

1.5.1. Whether looked at within the UK, or in its own right, there can be little doubt Scotland is a wealthy country<sup>12</sup>. Furthermore our richest citizens are seeing significant increases in their wealth – with one newspaper 'rich list' suggesting the wealth of the richest 100 people in Scotland has increased by 19% in the last year.<sup>13</sup> That this overall wealth, and increasing wealth amongst the richest, exists alongside such high levels of child poverty suggests that something is failing in the current approach to our public finances.

## 2. Key issues for the approach to Scotland's public finances post-2014

Given the context described above CPAG in Scotland believes that the approach to public finances at all levels, and wherever key fiscal powers end by lying post 2014, should be driven by the commitment to eradicate child poverty and tackle underlying inequalities, with the goal of reducing the costs that child poverty generates.

**2.1. Tax and benefit levers should be used to protect and boost the incomes of low income families in order to meet child poverty commitments, wherever powers lie post-2014.** At UK level the current approach to deficit reduction and the public finances is clearly failing in this regard. According to the Treasury's own

<sup>10</sup> <http://www.scotland.gov.uk/Publications/2014/03/5304/downloads>

<sup>11</sup> p76, *Poverty in Scotland 2011*, CPAG, 2011

<sup>12</sup> <http://policy-practice.oxfam.org.uk/publications/our-economy-towards-a-new-prosperity-294239>;  
<http://www.bbc.co.uk/news/uk-scotland-scotland-politics-26614122>;

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/wealthscotland>

<sup>13</sup> <http://www.bbc.co.uk/news/uk-scotland-27460830>

analysis<sup>14</sup> the cumulative impact of the UK Government's tax and benefit decisions since 2011, has seen the poorest households hit hardest (aside from the richest 10%) and a pattern of distributional impact across the rest of the income spectrum that is almost completely regressive. A majority of people in the wealthiest half of the population have been made wealthier, with social security and tax credit cuts used to pay for tax giveaways that mainly benefit wealthier households. It is clear therefore that there are affordable progressive alternatives to social security and tax credit cuts. Cutting social security and tax credit support for low earners, with the child poverty increasing consequences highlighted at 1.2.3 above, is therefore not a 'tough choice' or a situation in which 'there is no alternative'. The UK government could, and should have protected basic support for families on low incomes much better, instead of giving special treatment to make wealthier households wealthier still.

**2.2. Here in Scotland there is a need for clearer links between the Child Poverty Strategy for Scotland and the current approach to devolved public finances.** It is essential that the priorities identified in the Child Poverty Strategy 2014 are reflected in budget decisions across every arm of government. To date there is little evidence of systematic proofing of budget decisions across government for their impact on child poverty and socio-economic inequality. The Scottish Government Budget 14/15 makes welcome reference to child poverty in relation to the mitigation of welfare cuts and investment in specific third sector anti-poverty initiatives. It does not, however, make express reference to child poverty in relation to spending decisions on housing, health or education or in relation to decisions relating to devolved tax powers. Given that resource allocation is key to creating the conditions for a Scotland free of child poverty this is a matter of real concern.

**2.3. The approach to taxation should be progressive,** with those with higher incomes and greater wealth contributing proportionately more of their resources than those with the lowest incomes and least wealth. Tax and benefit policy should play a redistributive function, providing mechanisms for transferring and redistributing wealth from upper to lower income groups so as to reduce both poverty levels and social inequalities. In essence, this means the tax (and social security system) should enable redistribution from rich to poor, from those able to work to those unable to do so and from those without children to those raising a family.

**2.4. Taxation and social security should also help individuals distribute wealth throughout their own lifecycle,** ensuring that the wealth they create during their working lives contributes to the support they require during times of unemployment, childrearing, disability and/or old age.

**2.5. The approach to taxation (and benefits) should maximise the prevention of child poverty.** Recent analysis prepared for CPAG by the Institute for Social and Economic Research (ISER) at Essex University highlights the **crucial role tax and**

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<sup>14</sup> See Chart 2d

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/293738/budget\\_2014\\_distributional\\_analysis.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293738/budget_2014_distributional_analysis.pdf)

**benefit policy plays in reducing child poverty** across EU27 countries<sup>15</sup>. Across the EU child poverty rates would be higher before the redistributive effects of tax and benefit policies. However the analysis also shows that, before redistribution, the UK's child poverty starting point is particularly high (because of the large disparity between the highest and lowest pre-redistribution incomes). In fact, the UK has the second highest pre-distribution child poverty rate in the EU27<sup>16</sup>. As a result, the UK tax and benefits system has to do a lot more 'heavy lifting' in terms of redistribution than it does in many other countries. It is clear from the analysis that while child poverty is responsive to, and requires, many different types of policy intervention, international evidence shows that tax and benefits policy is an essential tool for reducing child poverty. Nevertheless it is also clear that the relative role taxation and social security policy needs to play is significantly affected by the scale of inequality in the distribution of pre-tax and benefit income.

2.6. The approach to taxation must take account of the resources needed to invest in and maintain the social infrastructure (including social security, childcare, housing, education and health services) needed to prevent child poverty. Taxation is the primary source of **public resource generation** and as such it is an indispensable policy instrument for mobilising additional public resources without necessarily sacrificing spending priorities.

2.7. The potential for **existing devolved tax levers** to be used more creatively to both tackle inequality and generate resources for investing in poverty preventing social infrastructure should be a priority for parliamentary discussion. Research by David Bell and colleagues has, for example, suggested that council tax could be adapted to more effectively reduce inequalities, by reducing tax for those currently on lower council tax bands and increasing it for those on higher bands<sup>17</sup>, whilst others have argued for a replacement of council tax with more progressive forms of local taxation. CPAG urges the Committee to assess the potential of different approaches to local taxation to better tackle inequality and ensure resources are generated for poverty prevention, as well as the impact potential use of devolved powers to vary income tax might have both on inequality and resource generation.

2.8. The tax and social security system should be **fair and equally accessible** to all. Taxation has been shown to be a key determinant, for instance, of gender inequality as tax structures frequently discriminate against women directly or indirectly<sup>18</sup>. For example, the UK government's decision to reduce its deficit largely through spending

<sup>15</sup> <http://www.cpag.org.uk/content/new-analysis-highlights-child-poverty-risks-chancellors-new-spending-cap>

<sup>16</sup> <sup>16</sup> Note on EU27 Child Poverty Rates, Institute of Social and Economic Research  
<http://www.cpag.org.uk/sites/default/files/ISER%20note%20on%20EU27%20child%20poverty%20rates.pdf>

<sup>17</sup> <http://scotfes.com/2013/09/15/constitutional-change-and-inequality-in-scotland-david-bell-david-comerford-and-david-eiser/>

<sup>18</sup> <http://oro.open.ac.uk/27577/> Gender Equality and Taxation: A UK case study In: Grown, Karen and Valodia, Imraan eds. *Taxation and gender equity. A comparative analysis of direct and indirect taxes in developing and developed countries*. Routledge International Studies in Money and Banking. Abingdon: Routledge, pp. 261–298.



cuts (around 80% of savings) and only 20% by raising taxes led to women losing far more than men given that women pay less income tax and less in indirect taxes while they tend to benefit more from public services<sup>19</sup>. Any system of tax and social security should be developed in partnership with those groups who will use it, with particular focus on vulnerable and/or hard to reach groups. Without such interaction there is a concern that the needs of vulnerable groups will not be represented in the development of new tax rules. For example, in countries where ownership of property is concentrated and a determinant of inequality, property taxes can be an efficient means of correcting inequalities in wealth distribution. However, arguably due to the disproportionate influence of landowners in the political process, property taxes have not increased in recent decades in many countries<sup>20</sup>. This is of relevance to Scotland given that, according to recent Scottish Government findings, the wealthiest 30% of households own 70% of Scotland's property wealth<sup>21</sup>.

2.9. Finally, robust systems of **accountability and public scrutiny** should be put in place to oversee the application of both tax and social security law. This is of particular importance given that an estimated £35 billion is lost to fraud, late payment and tax avoidance in the UK each year<sup>22</sup>. This compares to an estimated £2.8 billion<sup>23</sup> lost through fraud and claimant error in relation to welfare benefits.

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<sup>19</sup> Gender Equality Impact of Taxes, Diane Elson, Emeritus Professor, University of Essex, Chair of UK Women's Budget Group

<sup>20</sup> S Smith, Economic Development (Harlow and Pearson) 2006

<sup>21</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Social-Welfare/IncomePoverty> Wealth and Assets in Scotland 2006 – 2010, Scottish Government

<sup>22</sup> HM Revenue and Customs, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/249717/Tax\\_gap\\_issue\\_briefing.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249717/Tax_gap_issue_briefing.pdf)

<sup>23</sup> Commons Select Committee: Inquiry into Fraud and Error in the benefits system – <http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news/fraud-error-tor/>

## SUBMISSION FROM INCLUSION SCOTLAND

### 1 Background

1.1 **Inclusion Scotland** (IS) is a network of disabled peoples' organisations and individual disabled people. Our main aim is to draw attention to the physical, social, economic, cultural and attitudinal barriers that affect disabled people's everyday lives and to encourage a wider understanding of those issues throughout Scotland.

1.2 Given the breadth and scope of the Committee's Inquiry and the limitations on the length of submissions we intend to restrict our evidence to those areas where we can speak with some knowledge and authority – i.e. Welfare and Equality.

### 2 Welfare, Poverty and Equality

2.1 Current mainstream thinking views spending on social security benefits as providing a —~~sa~~fty net” for those who are low paid, fall out of employment, become ill, pregnant, etc. etc. Rather than taking a safety net' approach to welfare, Parliament should instead consider how welfare can be used as a tool of preventative spending, empowering people to be equal and participative citizens.

2.2 At the moment, the UK welfare system is geared to one outcome, placement in the labour market. By making links between welfare, health, social care, housing and well-being. The aim of future spending policy should be to achieve broader outcomes which recognise the social & economic value of a range of roles within the civic, cultural & social life of society, including voluntary & care work.

2.3 Therefore a principle of any new benefits system in a future Scotland should be that it is an integral part of services which support all of Scotland's people, to reach their full potential and play an active and equal role in Scottish political, community and economic life. As such spending on welfare benefits should not be viewed as a cost but instead as an investment in Scotland's people and economic future.

2.4 The Christie Commission concluded that the current way of providing public services, mainly via crisis intervention, is both more expensive and less effective than services which are co-produced with their users. Disabled people's organisations are keen to work with Government and service providers to reduce costs by creating more integrated services which genuinely respond to people's needs.

### 3 The Costs of Inequality

3.1 High levels of inequality in a society are associated with higher levels of ill-health and reduced well-being.<sup>24</sup> According to Leonard Cheshire over one in three disabled people of working age live in poverty – more than twice the rate for non-disabled

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<sup>24</sup> Wilkinson, Richard and Pickett, Kate (2010): *The Spirit Level*, London: Penguin Books.

adults<sup>25</sup>. Disabled people are also more likely to be reliant on benefits for all or part of their income as they are less likely to be in work.

3.2 At all key life stages disabled people fare worse than non-disabled people –

- **They are much more likely to leave school with no qualifications.** Fifty-eight per cent of Scots disabled people have no formal qualifications compared to **24%** of those with no disability (Source: Scottish Household Survey)
- **They are twice as likely as their non-disabled peers not to be in education, employment or training (NEET) at age 16** and three times as likely at age 19<sup>26</sup>.
- **They are much less likely to attend university or gain a higher educational qualification.** Only 12.5% of Scottish disabled people hold a degree; half the rate of non-disabled people.
- **They are only half as likely to be in employment as non-disabled people.** The employment of Scots disabled people has fallen during the ongoing “recession” and stood at 42% last September. Yet the employment rate for non-disabled Scots is currently 79% - nearly twice as high<sup>27</sup>.

3.3 Disabled people's exclusion from the workforce means that they are deprived of the opportunity to make a contribution to wider society's economic well-being through the payment of taxes. Thus, as with women, increasing disabled people's participation in the labour market would lead to increased tax revenues for the Exchequer.

3.4 Inclusion Scotland support the view that providing welfare and social care ‘on the cheap’ has costs in terms of the health & well-being of citizens which in turn are passed on to the tax payer. Investment in effective welfare provision which helps to reduce inequality would lead to better outcomes, not just for individuals but for society as a whole.

3.5 Future funding for employment support programmes such as the Work Programme and Access to Work (which supports disabled employees in overcoming barriers to employment) also needs to be examined in order for a holistic approach to welfare support to be attained.

3.6 Currently, although Scotland has a higher proportion of disabled people than the rest of the UK, they receive less support via Access to Work (AtW). In the UK there were **31,400** disabled people assisted through AtW in 2012/2013. Proportionately that means that around **3,450** (11% of the UK total) disabled Scots should have been

<sup>25</sup> Disability and the Down Turn, Leonard Cheshire, 2010, <http://www.lcdisability.org/?lid=11293>

<sup>26</sup> The EHRC Triennial Review, Developing the Employment Evidence Base, Policy Studies Institute, 2010

<sup>27</sup> Labour Force Survey

helped. Instead only **2,490** were assisted (i.e. just **0.4%** of Scots disabled people of working age received any AtW support whatsoever)<sup>28</sup>. This means that AtW take-up in Scotland is about 30% lower than we would expect it to be based on the proportion of Scots disabled people in the population.

## 4 Cost of Living

4.1 Not only do disabled people suffer from a lack of income, they also face greater living expenses. Recent research by Scope shows that even if they are lucky enough to find work disabled people earn, on average, over £1 an hour less than non-disabled people. Scope also found that, on average, disabled people spend an extra £550 a month on disability related items. This is because they have to:

- Buy more of everyday things (like heating, laundry costs, or taxis to work)
- Pay for specialist items (like wheelchairs or hoists)
- Pay more than non-disabled people for the same products and services (like insurance)

4.2 Disabled people's small incomes are further eroded by Care Charging. Whilst Health Care is provided to all citizens free at the point of need disabled people are required to pay to have their daily care needs met. Thus although millionaires are only required to pay tax at 45p in the pound the marginal tax rate imposed on disabled people by this —Care Tax" can exceed 90% of their income – and leaves thousands of disabled people on income support levels despite the fact that they work full-time.

4.3 The total amount raised from disabled people by councils charging for care went up from £40m in 2010 to over £46m in 2012 (a 12.6% increase). Yet at the same time as charges were increasing disabled people were losing benefits as a result of the UK Government's —welfare reform" agenda.

4.4 Because the amounts charged, and the amount of income disabled people are allowed to retain, varies from one local authority to another, many disabled people are not able to easily move from one location to another, either for work or for social reasons. Thus, although citizens supposedly have freedom of movement throughout the European Union, in Scotland this is denied to disabled people seeking to move from one local authority to another.

4.5 With local authority budgets being reduced, care support for a large proportion of disabled people is also gradually being reduced, via entitlement criteria, to life and limb cover. This effectively traps disabled people in their homes preventing them from - participating in family and community life; taking part in education, volunteering and seeking & retaining employment.

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<sup>28</sup> Inclusion Scotland analysis of figures provided on the regional breakdown of Access to Work, from the Strategic Directorate Disability Analysis Division, DWP in October 2013:

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

## 5 Social Isolation & Health Inequalities

5.1 Providing welfare benefits and social care ‘on the cheap’ also has costs in terms of the inclusion of disabled people in economic and wider societal life; their long-term health & well-being and the consequent health & social care costs which are in turn passed on to the tax-payer. For example we know that the social isolation experienced by disabled people and those with long term health conditions affects their sense of well-being and that in turn has negative impacts on their physical and mental health:

- people with a single impairment or long-term condition are two to three times more likely to develop depression than the rest of the population. People with three or more conditions are seven times more likely to have depression<sup>29</sup>
- having a mental health problem increases the risk of physical ill health. Co-morbid depression doubles the risk of coronary heart disease in adults and increases the risk of mortality by 50 per cent<sup>5</sup>
- people with mental health problems have higher rates of respiratory, cardiovascular and infectious disease, and of obesity, abnormal lipid levels and diabetes<sup>5</sup>
- the average life expectancy for someone with a learning disability is 20 years less than that of the general population<sup>30</sup>
- Social isolation, like that experienced by many disabled people poses the same risk to health and life expectancy as heavy smoking<sup>31</sup>

5.2 Thus enabling disabled people to participate in the economic, social, cultural and civic life of the community does not only allow them the freedom to exercise their human rights, it can benefit society as a whole by reducing health and social care costs. The Scottish Government and Parliament should begin to consider how social care, health, housing, transport and welfare benefits could be reconfigured to enable disabled people's participation in wider society and thus prevent very expensive spending on health and crisis interventions.

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<sup>29</sup> Investing in emotional and psychological wellbeing for patients with long-term conditions (p.3), Mental Health Network, NHS Confederation, 2012

<sup>30</sup> Learning Disability Strategy, Scottish Government, June 2013

<sup>31</sup> Social Relationships and Mortality Risk: A Meta-analytic Review, Julianne Holt-Lunstad, Timothy B. Smith, J. Bradley Layton, Journal of Plos Medicine, July 2010

## 6 Taxation

6.1 An integrated tax and benefits system is still an aspiration rather than a reality. However we should perhaps expect the tax system to support disabled people and others on low incomes, rather than, as at present, often penalising them. Inclusion Scotland believes that any future tax system should be reformed to boost the incomes of disabled people who on average have lower incomes and higher expenditure.

6.2 At present the following state benefits, paid to many disabled people and their families, are taxable –

- Jobseeker's Allowance
- Carer's Allowance
- Employment and Support Allowance (contribution based).

6.3 A future Scotland might aspire to do more to recompense those who become unemployed, ill or disabled than tax the monies that the State pays as benefits. Moreover there are bureaucratic transaction costs (within both DWP and HMRC) in adjusting tax liabilities that make the current practice an ineffective means of generating additional revenue. Inclusion Scotland believes that a future Scotland should end the taxing of these benefits.

6.4 Another area in which disabled people are at a disadvantage within the tax system is via VAT being charged on building adaptations. This means that someone who pays (out of their own pocket) to adapt their home to meet their daily living needs and who, in the process of doing so, also reduces their requirement for costly social work care is penalised rather than rewarded by having to pay an additional 20% on the work. **Inclusion Scotland strongly believes that disabled people paying for home adaptations which reduce their care needs should not be charged VAT on the work.**

6.5 Blind Persons Tax Allowance: If you live in Scotland and are unable to perform any work for which eyesight is essential, you can claim Blind Person's Allowance. The Allowance can even be transferred to a partner or spouse. The Blind Person's Allowance for the tax year 2014 to 15 is £2,230 and there are no age or income restrictions.

6.6 It seems somewhat anomalous that one impairment group receives this allowance when other impairment groups do not. For example, a musician who acquires a hearing impairment might not be able to work any longer nor might a brick layer who loses an arm. Inclusion Scotland would ask that a future Scottish Government might consider extending a similar allowance to those from other impairment groups who acquire impairments that prevent them working in their previous trade or profession.

## 7 Affordability

7.1 Inclusion Scotland does not accept the premise that a future Scotland could not afford a benefits system which not only supports disabled people and others (e.g. unemployed people, lone parents, carers) but could actually lift them out of poverty. If a fraction of the money lost to the British Exchequer through tax fraud, avoidance and evasion<sup>32</sup> was instead collected then the current UK Government's welfare reforms/benefit cuts would be totally unnecessary.

7.2 Neither does Inclusion Scotland believe that welfare policies which are mainly targeted at changing individuals' behaviour will be effective either in moving disabled people into work or in reducing overall poverty.

7.3 For example the current Government's Work Programme - contracted out to private providers at considerable cost to the public purse- is very costly to deliver, but has totally failed to improve employment outcomes for disabled people. In 2012 in Scotland, 1520 former incapacity benefit claimants went through the scheme and only 10 completed six months in work.

7.4 Simply cutting welfare expenditure is neither desirable nor necessary, particularly during a period of prolonged mass unemployment. In fact, during periods of mass unemployment, when disabled people who have little or no experience of employment will be in competition for jobs with workers with decades of work experience who have only recently been made redundant, benefits which are adequate to lift disabled people out of poverty become more important than ever.

7.5 Whilst Inclusion Scotland accepts that there are benefit savings which might be made - for example through reducing official error and unnecessary complexity and bureaucracy - overall we believe that the Government of a future Scotland would need to invest in the benefits system to provide the support that might allow disabled people to participate more fully in society.

7.6 For example expanding the qualifying criteria and providing more funding to the Independent Living Fund & Access to Work should not only support more disabled people into work but should also assist them in taking up educational opportunities, to become volunteers and to participate in civic and community life.

7.7 Such investment would cost money in the short term but would lead to significant savings in the longer term, as barriers to paid employment were reduced and spending in other areas such as health and social care could be reduced. For example Access to

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<sup>32</sup> Tax Research UK estimates that the UK Exchequer is losing £120 billion annually through tax avoidance (£25b); tax evasion (£70b) and uncollected tax (£25b)  
<http://www.taxresearch.org.uk/Documents/Manifesto.pdf>

Work, reaps an estimated return to the Treasury of £1.48 for every £1 invested, with even higher returns to society overall (including improved health and well-being<sup>33</sup>.

## 8 In conclusion

8.1 The welfare spending and fiscal policy of a Future Scotland should be predicated on a commitment to the fundamental human rights contained in the UN Convention on the Rights of People with Disabilities (UNCRPD) in that all of those using the welfare system should be treated with dignity and respect; it should support all citizens in achieving an adequate income and it should support disabled people in achieving and maintaining independent living.

8.2 Rather than taking a 'safety net' approach to welfare, a future Scotland should consider how welfare can empower people to be equal and participative citizens. This means recognising that culture and personal relationships, rather than 'contract and consumption' are the key to better quality of life and well-being.<sup>34</sup>

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<sup>33</sup> Page 15 of the Executive Summary - **Getting in, staying in and getting on: Disability employment support fit for the future**", a review to Government by Liz Sayce, June 2011

<sup>34</sup> This is the argument Prof. Bill Jordon makes in his 2008 publication: *Welfare and Well-being: Social Value in Public Policy*, Bristol: Policy Press



## **Finance Committee**

**17<sup>th</sup> Meeting (Session 4), Wednesday 28 May 2014**

### **Scottish Fiscal Commission**

#### **Purpose**

1. The purpose of this paper is to provide background information to support the Committee's consideration of nominees for appointment to the Scottish Fiscal Commission. As this is the first occasion on which the Committee will hold such sessions, the paper also sets out relevant information on the decision to establish a Scottish Fiscal Commission.

#### **Establishment of a Scottish Fiscal Commission**

2. The creation of an independent fiscal body for Scotland was first raised with the Finance Committee ("the Committee") by the Cabinet Secretary for Finance, Employment and Sustainable Growth (CSFESG) in May 2013.

3. In order to inform the development of such an independent fiscal body, the Committee conducted an inquiry during November and December 2013. The Committee's report on this inquiry was published in January 2014 and set out a number of recommendations on the role, establishment and operation of a proposed Scottish Fiscal Commission ("the Commission").

4. The Scottish Government's response to the report agreed to the majority of the recommendations made by the Committee and there is now a broadly agreed framework for the Commission. However, the implementation and detailed development of that framework will be a matter for ongoing consideration by the Committee, the Scottish Government and the Commission. In order for these discussions to take place it follows that it is first necessary to appoint members of the Commission

5. The primary focus of this paper is to consider the candidates who have been nominated for appointment.

#### *Pre-appointment hearings and the role of the Parliament*

6. In its report, the Committee concluded that the Commission should adhere to the 22 principles for independent fiscal bodies that have been identified by the OECD. In reaching this conclusion, the Committee placed particular emphasis on the importance of independence, non-partisanship and transparency and recommended that—

- appointments to the Commission should be made by Scottish Ministers, "subject to the consent of the Parliament on the recommendation of the Finance Committee.", and
- the Finance Committee should have the option of holding a pre-appointment hearing after which a report would be made to the Parliament.

7. These recommendations were accepted by the Scottish Government. Given that the first appointments being made to the Commission precede the introduction of legislation that will establish the Commission on a statutory basis, appointments are being made on what the Government has described as a “by analogy” process that reflects the Committee’s recommendations.

### **Candidates nominated for appointment**

8. The Cabinet Secretary has indicated that the Commission will comprise three part-time members, each appointed for a single term and with appointments to be staggered to ensure some continuity within the Commission. The Cabinet Secretary’s nominees are: Lady Susan Rice, Professor Campbell Leith and Professor Andrew Hughes Hallett. Lady Rice and Professor Leith will appear before the Committee on 28 May and Professor Hughes Hallett will appear on 4 June.

9. In advance of appearing before the Committee, each of the nominees was asked to complete a short written questionnaire and to submit this to the Committee, along with a copy of their CV. The information submitted is included as Annexe A to this paper.

### *Biographies*

10. Lady Susan Rice CBE has been nominated as chair of the Scottish Fiscal Commission. Lady Rice is currently Managing Director of Lloyds Banking Group and has previously held roles at Bank of Scotland and NatWest Bancorp. Lady Rice is a non-executive director of Scottish and Southern Energy, a member of the Court of the Bank of England, a member of the board of J Sainsbury’s and is about to join the Court of Edinburgh University. In 2011 Lady Rice joined the First Minister’s Council of Economic Advisers.

11. Professor Campbell Leith is currently Professor of Macroeconomics at the University of Glasgow, where the Commission will be based. Professor Leith’s principle research area is in the field of New Keynesian Economics and he specialises in the theoretical and empirical analyses of monetary and fiscal policy and their interactions. Professor Leith proposal for the introduction of a Fiscal Council has been cited as providing a rationale for the establishment of the Office for Budget Responsibility in 2010.

### **Role and remit**

12. In its report, the Committee recommended that “if the remit is to provide a commentary on Scottish Government forecasts, it is essential that to ensure its independence, the SFC should have no role in producing the forecasts”. Responding to this recommendation, the Cabinet Secretary stated that “the SFC should have no role in producing the **original** forecasts” (emphasis added).

13. Professor Leith states in response to the Committee’s questionnaire that his personal view is that the Scottish Government should “present the Fiscal Commission with both their **provisional** forecast and as much detail of the underlying forecast process as possible” (emphasis added).

14. The Committee recommended that “any contact between the SFC and the Scottish Government and Revenue Scotland should be based on a transparent framework of co-operation” and that the “basis of the working relationship should be set out in a MoU.” The Scottish Government indicated in its response that it agrees with this recommendation and will discuss a draft of the MoU with the Committee.

15. The Committee also recommended that the MoU “should include the procedure and timings for the SFC to submit its views to the Scottish Government on its provisional forecasts (prior to publication) and the procedure and timings for dealing with any differences of opinion. It is expected that such views will be made publicly available.” The Scottish Government agrees with this recommendation.

16. The CSFESG has indicated that he intends to set out a remit for the SFC on a non-statutory basis for an interim period and on a statutory basis in due course. He intends to discuss the remit with the members of the SFC once they have been appointed and to then discuss and agree the remit with the Committee.

### **Resources and staffing**

17. The Committee recommended that, in line with OECD principles, the Commission should have funding allocated on a multi-year basis, with a level 3 budget heading, and the ability to appoint its own staff. The Government has agreed with these recommendations in respect of the establishment of the Commission on a statutory basis.

18. In relation to the interim period before this statutory establishment the Government intends to make available a budget of £20,000 annually to cover resource costs “which might be provided for example from a University economics department in reviewing forecasts associated with the two taxes devolved under present arrangements.”

19. In relation to the need for analytical capacity, the Government stated that the “need for analytical capacity will be discussed and agreed with members of the SFC once identified”. In doing so, the Government noted that it considers that the “capacity required to scrutinise receipts forecasts should be proportionate to the fact that under present arrangements 2 taxes supporting about 1.5% of the Scottish Government’s budget are devolved”.

20. The Government’s press release stated that to “ensure independence from the Scottish Government, the Commission will not draw on Scottish Government officials for analysis and other outputs. In practice, expert resources to undertake this work are likely to come from the academic community.” The Commission is to be hosted by the University of Glasgow.

### **Conclusion**

21. The Committee is invited to consider the above.

**Catherine Fergusson**  
**Senior Assistant Clerk to the Committee**

## **LADY SUSAN RICE CBE**

### **Written questionnaire**

#### **Question 1: How has your previous experience equipped you to fulfil your role as a member of the Scottish Fiscal Commission?**

Significant experience as a banker in Scotland, and as a non-executive director of organisations in all three sectors, here and more widely, provides substantial experience from which to draw. As a banker, I have to understand what drives our customers' financial decisions and the market in which we operate. I created the function of Chief Economist first for Lloyds TSB Scotland and subsequently at Bank of Scotland (you will know my colleague Donald MacRae) and have championed the development of a deep economic understanding of markets within Scotland in its own right. My board affiliations include two FTSE 50 companies, start-up organisations, think tanks and the Bank of England. I have helped set up several social finance organisations, chair several boards in the arts, have links to higher education. In other words, my touch is broad. My experience in the Chair covers all three sectors. Of particular relevance, perhaps, is my chairmanship of the Audit & Risk Committee of the Bank of England.

I have a keen sense of public service and have supported a number of initiatives in Scotland, because of my interest in specific issues. These range from the Scottish Advisory Taskforce on the New Deal, to extensive support for YoungScot, to Scotland's Futures Forum, the Scottish Euro Preparations Committee, the Strategic Group on Women, the 2020 Climate Change Group. I also chaired the Steering Group that created the Financial Services Strategy Group, have been the external member on a number of senior promotion panels for the Scottish Executive and currently sit on the Council of Economic Advisors. These have been under various administrations and all have required independence from the political process. Similarly, as President of the Scottish Council for Development and Industry (SCDI), I support the staunch independence of its research and debates. Non-executive experience, public sector experience, chairmanship experience and a strong connection to matters Scottish and to the economic issues which effect people and businesses in real life would all come into play if my nomination was approved.

#### **Question 2: What do you see as the immediate priorities for the Scottish Fiscal Commission?**

The first year of operation for the Scottish Fiscal Commission is critical in that it needs to be set up, and its ways of working and sources of support need to be established. At the same time, it needs to be productive and will need to produce a commentary at the time of the Budget submission in autumn 2014. Before its remit is put on a statutory basis, a memorandum of understanding will need to be agreed by the Scottish Government, the Scottish Fiscal Commission and relevant agencies. Key to its operation is the independence of its analysis and the focus of the challenge process it ensures takes place. While the Scottish Fiscal Commission will comprise, if approved, two highly distinguished and experienced economists and a banker and business person (in myself), I expect we will still need to identify the best sources of additional information and analysis to help us vet the forecasts or models

which the Scottish Government develop in relation to Scotland's new sources of tax revenues. It might be helpful in the first instance to consult the OBR, and possibly also some fiscal commissions in other countries. Some do their own forecasts but some would be modelled like the proposed Scottish Fiscal Commission and be charged with vetting the forecasts developed by their respective governments. It would be helpful to understand what has worked and not worked for them and, if their set-up was fairly recent, what are the lessons learned. It is beneficial, therefore, that the Scottish Fiscal Commission's remit at its inception is restricted to the new streams of tax revenue.

**Question 3: How do you think the Scottish Fiscal Commission should operate in reaching its position in relation to commentary on the Scottish Government's forecasts?**

The most important factor in the operation of the Scottish Fiscal Commission will be its independence – that it is exercising informed challenge and analysis and doing so without regard to party politics or professional interests. It must do this in a robust and transparent way. Its purpose is to achieve what is best for the nation and it is the overall public interest that must drive the nature of its deliberations. By way of example, my responsibilities as a non-executive with the Bank of England have also been driven solely by the public good. This doesn't mean that all the judgements of the Scottish Fiscal Commission or any other body, in retrospect, turn out to have been the 'right' ones. But it does mean that there must be no imputation of conflict or carelessness in making those determinations. On a more operational level, the Scottish Fiscal Commission will require a lot of data, a lot of information. It will need the expertise to analyse the economic models which will be developed. It will need information on wider economic factors and should draw those from a range of sources. It will likely need to identify a small cohort of skilled individuals to help with the analysis and it will need to ensure that they are also independent in the way I have described. Members of the Scottish Fiscal Commission will have to meet, discuss and challenge each other in order to develop the required commentary. Their deliberations and their outputs must be underpinned by transparency and non-partisanship.

**Question 4: How do you think the Scottish Fiscal Commission should operate to ensure that its independence from the Scottish Government is clearly demonstrated?**

The Commission should comprise members who are themselves independent, who do not and have not taken political stances, who are not in a situation of conflict professionally, and who have a proven track record of drawing conclusions based on evidence, and the ability to distinguish good evidence from that which is not. The proposal is to situate the Scottish Fiscal Commission independently within one of Scotland's universities and provide the independent expert help which the Commission deems necessary. As a final point, if it is made quite clear publicly that its primary mode of operation is one of independence, it will then be self-monitoring alongside any public scrutiny to ensure that remains the case.

**Question 5: Do you hold any other roles or have any business or financial connections which might give rise to or be perceived as being a potential conflict of interest in carrying out your role as a member of the Scottish Fiscal Commission?**

I don't hold any other roles or have a business or financial connection which would give rise either to a genuine or perceived conflict of interest. I was asked to join the Council of Economic Advisers in 2011 and agreed to do that only if my political independence would be protected at all times. For professional reasons I must remain and be seen as being independent. This restriction was accepted willingly; the CEA is chaired by an independent member and my requirement has at all times been fully respected. As mentioned, I hold other roles with Scottish-based organisations. These include the Scottish Council for Development and Industry, several arts organisations and, recently, as a non-executive with Scotland's Futures Forum. I do all of these things because I care greatly about Scotland as a country, about its people and its future and I would approach the role with the Scottish Fiscal Commission in exactly the same way. None of these roles poses a direct conflict with Commission activity and nor am I in any position where I would be subject to inappropriate influence.

I'm honoured to have been asked to have my name put forward to chair the Scottish Fiscal Commission. If that appointment is approved, I would look forward to helping create something brand new for this country, and genuinely important, and seeing that it operated to the highest standards. It would be a great privilege to do so.

**Curriculum Vitae**

**SUSAN I RICE, CBE**

**August 2000 to present – Lloyds Banking Group**

**Managing Director, Lloyds Banking Group Scotland – January 2009 to present**

The senior Group executive on the ground in Scotland, delivering its approach to business, staff and external issues, through customer and stakeholder contact, diffusing issues, communication, internal and external political and stakeholder engagement.

**Chief Executive, Lloyds TSB Scotland plc (2000 – 2009)**

**Chairman and Chief Executive, Lloyds TSB Scotland plc (2008 - 2009)**

Developed and implemented strategies to optimise financial and operational performance of Lloyds TSB Scotland, a separately registered clearing bank offering a full range of retail and wholesale banking services.

**Managing Director of LBG Scotland & North Community Bank - August 2005 to 2009**

Developed and implemented strategies for the branch network business across the north of England including Lancashire and Yorkshire. Responsible for 5000 staff, 500 branches overall and P&L.

**January 1997 to August 2000 – Bank of Scotland**

**Managing Director, Personal Banking**

**February 1999 to August 2000**

Responsible for mortgages, cards, long-term savings, general insurance, deposits, money transmission, client banking and private banking/offshore for Group-wide customers.

**February 1998 to January 1999**

Deputy head of division responsible for branch operations and all retail and small business banking in Scotland. Directed sale of Registrars business to Lloyds TSB Registrars. Executive charged with creation of the Bank's own life, pensions and investment business.

**January 1997 to January 1998**

Transformed a centralised Bank function into a profitable third party provider of debt management services for external companies. Managed the Corporate Securities Services Division and the Bank's exit from this business. Negotiated the profitable sale of Global Custody and Corporate Trust Businesses. Set Bank strategy around financial exclusion.

Other responsibilities included: leading the Bank's focus on financial exclusion; core involvement with the Bank's acquisition activity; providing media comment for the Bank on a wide range of topics; presenting at industry, government and international conferences; advising government (Westminster and Scottish Executive), regulators and the industry on financial exclusion matters.

**1986 to 1996 – National Westminster Bancorp**

**Senior Vice President & Division Head**

Managed community development program of American subsidiary of major UK Bank. Designed program to meet regulatory requirements of the Community Reinvestment Act. Directed community, economic development and structured finance lending programs, CRA related risk management, product development, publicity, community outreach and charitable contributions.

Previous assignments as Officer-In-Charge of special projects relating to the integration of several acquired institutions. Focus on branch banking, cash management, asset-based lending, private banking, small businesses and retail and wholesale systems

**1981 to 1986 - Colgate University - Dean of Students**

**1980 to 1981 - Hamilton College - Staff Aide to the President**

**1973 to 1979 - Yale University - Dean of Saybrook College**

Oversaw student academic planning and social structures at all three institutions. Managed multi-million dollar construction projects from program and design development to occupancy. Participated on planning groups and task forces with responsibility for analysis, research and presentations. Advised and consulted with senior university management. Crafted and executed plans for personnel and resource deployment.

**1970 to 1973 Yale University Medical School - Medical Researcher**

**U.K. Boards/Committees**

Non-Executive Director, Bank of England Court (2007-); Audit & Risk Cttee Chairman  
 Non-Executive Director, J Sainsbury's (2013-)  
 Chair, Edinburgh International Book Festival (2001-)  
 Non-Executive Director, Scottish and Southern Energy plc (2003-); Senior Independent Director for 6 years; RemCo Chairman (2008-)  
 Non-Executive Director, Big Society Capital (2011-)  
 Non-Executive Director, National Centre for Universities and Business (2013-)  
 Chair, Edinburgh's Festivals Forum (2007-)  
 Chair, Chartered Banker: Professional Standards Board (2010-)  
 Chairman of Governors, Patrons of National Galleries of Scotland (2011-)  
 President, Scottish Council for Development and Industry (2011-)  
 Regent, Royal Society of Surgeons Edinburgh (2010-)  
 Lay Member of Court, Edinburgh University (8/2014-)  
 Trustee, Lloyds TSB Foundation for Scotland (2009)  
 Member, Advisory Group to Lord Mayor's Initiative (2011-2014)  
 Non-Executive Director, Scotland's Futures' Forum (2005-2013)  
 President *cdfa* (2008-2010), Patron (2005-)  
 Patron, Young Scot (2007 -)  
 Director, UK Charity Bank (2001-2008)  
 Director, Scottish Business in the Community (2001-2010)  
 Chair, Advisory Committee of the Scottish Centre for Research on Social Justice (2002-2008)  
 Chair, Committee of Scottish Clearing Bankers (2001-03)  
 Deputy Chair, Scotland's 2020 Climate Group (2009-), Chair, Finance Sub Group (2009-)  
 Member, Oxford University's Said Business School Advisory Forum (2006-2013)  
 Member, The Goodison Group in Scotland (2004-2013)  
 Member, Council of Chartered Institute of Bankers, Scotland (2001-)  
 Member, Scottish Advisory Task Force on the New Deal (2000-2004)  
 Member, Aberdeen Common Purpose Advisory Board (1999-2006)



Member, BP Scottish Advisory Board (2002–03)  
Trustee, David Hume Institute (2000-2005)  
Treasurer, The March Dialogue (2001-2004)  
Chair of Judging Panel – Scottish PLC of The Year Awards (2004 and 2009)  
Chair of Judging Panel – Deals and Dealmakers Awards (2010)  
Chair of Judging Panel – Creative Scotland Awards (2005)

### **U.K. Public Service**

Member, First Minister's Council of Economic Advisers (2011-)  
Member, Steering Board to set up National Centre for Universities and Business (2012-)  
Member, HMT Financial Inclusion Taskforce (2005-2011)  
Chair, Steering Group, Financial Services Strategy Group, Scottish Executive (2003-2004)  
Private sector representative, Selection Panel for Permanent Secretary, Scottish Executive (2003)  
External member, Senior Promotion Panels, Scottish Executive (1999, 2000, 2004, 2005, 2006, 2008)  
Member, Strategic Group for Women, Scottish Executive (2003)  
Member, Friends of Scotland Advisory Board to Secretary of State for Scotland (2002-2003)  
Member, Scottish Euro Preparations Committee, reporting to Secretary of State for Scotland (2003-2006)  
Member, Editorial Board, Scottish Higher Education Funding Council (2003-2004)  
Member, HM Treasury Policy Action Team on Access to Financial Services, reporting to the Chancellor (1997-2000)  
Member, Foresight Sub-Committee on Retail Financial Services (2000)  
Strategic Presenter, Scottish Parliamentary Enterprise Committee (2001, 2003)

### **U.S. Boards/Committees**

Chair, the Consumer Affairs & Community Re-investment Committee of the New York State Bankers Association  
Director, Greater Jamaica Development Corporation  
Director, Neighborhood Housing Services of New York City  
Trustee, New Jersey Community Loan Fund  
Director, New York Community Investment Company  
Director, South Bronx Overall Economic Development Corporation  
Advisor, Community Re-investment Institute  
Judge, Bruner Foundation – Rudy Bruner Award 1997 national panel of judges  
Member, New Jersey Legislature Housing Advisory & Steering Committees  
Advisor, The Seton Hall Center for Public Service  
Advisor, Women's World Banking in North America

### **Publications**

Articles on banking, insurance, business, marketing, diversity, low carbon economy, corporate responsibility and financial exclusion, published in The Scotsman, The

Herald, Scotland on Sunday, Sunday Herald, Insurance Day, New Statesman, Finance and Ethics Quarterly, Scottish Banker, Scottish Homes, Management Today, Business AM, Holyrood Magazine, Business Insider Magazine, the book *Being Scottish* and in the proceedings of several conferences. Co-authored several articles published in medical journals, early 1970's

## Honours

CBE 2005 New Year's honours list  
 DBA (Hon) The Robert Gordon University  
 DR *hc* University of Edinburgh  
 (Hon)  
 D Litt (Hon) Heriot-Watt University  
 D Univ University of Paisley  
 (Hon)  
 D Univ Glasgow University  
 (Hon)  
 DBA (Hon) Queen Margaret University  
 LLD (Hon) Aberdeen University  
 HRH Prince of Wales Ambassador for Scotland for Corporate Responsibility  
 (2005-2007)  
 Honorary President *cdfa* 2007-2010 (Patron since 2005)  
 Chartered Banker  
 FCIBS  
 FRSA  
 FRSE

## Awards

2013 Lifetime Achievement Award from VIBES, the business and Environment awards  
 2011 Top five Women of Influence, and top in business, in Scotland (Herald)  
 2011 Leadership Award, Arts and Business Scotland  
 2011 Wellesley Alumnae Achievement Award  
 2008 *Insider* Corporate Elite Business Woman of the Year  
 2007 National Business Awards Scotland – Inaugural Leadership Award  
 2005 Lifetime Achievement Award, Women in Banking and Finance  
 2002 Spirit of Scotland annual Business Award  
 2002 *Insider* Corporate Elite Business Woman of the Year  
 2002 Finalist, European Businesswoman of the Year  
 2002 Most Influential Businesswoman in Scotland (Sunday Herald)  
 1999 Business Person of the Year Sunday Independent Award (Ireland)  
 1999 Burgess of Guild of the City of Aberdeen  
 1995 National Social Compact Award (U.S.)  
 National American Bankers Association Award (U.S.)  
 NJ Governor's Financial Institution of the Year Award (U.S.)  
 1994 Induction into the American Academy of Women Achievers

1994-1996 Consecutive 'Outstanding' CRA ratings from national bank examiners

### **Education**

B.A. Wellesley College, Massachusetts  
M.Litt University of Aberdeen, Scotland

### **Interests**

Modern Art, Hillwalking, Opera, Fly Fishing

## **PROFESSOR CAMPBELL LEITH**

### **Written questionnaire**

**Note to Finance Committee:** I have not yet had the opportunity to discuss the operation of the Fiscal Commission with the other nominated members, and so the views expressed below are solely my personal opinion.

#### **Question 1: How has your previous experience equipped you to fulfil your role as a member of the Scottish Fiscal Commission?**

I began my academic career over 20 years ago working as a researcher on an Economic and Social Research Council (ESRC) funded project to build a macroeconometric model of the UK economy. Possibly more than my formal qualifications, this experience meant I developed knowledge of both the theory and empirics of all the major aspects of the macroeconomy and modern macroeconomics. The Scottish Government's modelling of the devolved tax revenues which is to be subject to the Fiscal Commission's scrutiny would essentially be similar to elements of such a macroeconometric model. Since then I have built a research career looking at macroeconomic policy making (monetary and fiscal policy) in a variety of settings (both within closed and open economies and with a variety of frictions and distortions defining the trade-offs facing the policy maker). This work has been published in numerous journals, presented to both academic and policy-making audiences and has attracted ESRC funding.

However, a large part of the activities of an academic are not solely concerned with their own research, but are related to the review and assessment of the research of others. In this respect, I have acted as an editor and referee for several Economics' journals. I have also served on the Economics and Econometrics sub-panel of the periodic reviews of UK research undertaken in the Research Assessment Exercise 2008 and Research Excellence Framework 2014.

I believe this combination of research and review experience mean that I am able to fulfil the role required of a member of the Scottish Fiscal Commission.

#### **Question 2: What do you see as the immediate priorities for the Scottish Fiscal Commission?**

The Fiscal Commission is required to review the quality of the Scottish Government's forecasts in respect of the devolved taxes detailed in the Fiscal Commission's remit. These forecasts are to be 'owned' by the Scottish Government rather than the Commission, such that the Fiscal Commission will not be directly involved in their construction. It is important that this distinction is maintained.

However, in order for the Fiscal Commission to discharge its obligation to assess the quality of the forecasts and their underlying assumptions, the immediate priority for the Fiscal Commission lies in gaining access to the relevant modelling work of the Scottish Government. Formally, this requires appropriate memoranda of understanding to be drawn up to facilitate such access. More practically this could go as far as passing to the Commission the relevant data and computer codes to enable them to fully replicate the Scottish Government's forecasts in respect of the devolved taxes, including identifying any judgemental adjustments which have been made relative to the underlying model. Without knowing exactly how the forecasts are constructed, it is not clear to what extent such an approach would be practical. However, to the extent that such a hands-on approach is feasible it would also allow the Commission to assess which assumptions most materially drive the forecast. This would also facilitate a dialogue with the forecasters which would hopefully improve the forecasting methods. Nevertheless the Fiscal Commission should never cross the line where the ownership of the forecast is in doubt.

**Question 3: How do you think the Scottish Fiscal Commission should operate in reaching its position in relation to commentary on the Scottish Government's forecasts?**

As noted above, in my view the Scottish Government forecasters should develop their modelling techniques and present the Fiscal Commission with both their provisional forecast and as much detail of the underlying forecasting process as possible. The timetable for this is clearly dictated by the budgetary process. However, the Fiscal Commission could have a preliminary engagement with the forecasters over the modelling approach, with the ultimate forecast being finalised at a later stage.

Essentially, I think it may be desirable to partially separate the scrutiny of the method used to produce the forecast and the forecast itself, to avoid the Commission's work being concentrated in a very short period prior to each forecast round. This would then spread the scrutiny work throughout the year and enable the Fiscal Commission to undertake some limited longer-term research work funded through its research budget in support of its ongoing evaluation of the Scottish Government's forecasting activities.

**Question 4: How do you think the Scottish Fiscal Commission should operate to ensure that its independence from the Scottish Government is clearly demonstrated?**

As discussed during my previous appearance before the Finance Committee, there are numerous ways in which Fiscal Councils can be constituted to protect their independence through mechanisms such as protected budgets, fixed terms of

appointments, locating the Commission outside of Government etc. However, although such activities create the conditions that can enable the Fiscal Commission to be independent, they do not necessarily guarantee it. Here it lies with the members of the Fiscal Commission to be seen to discharge their duties to fairly, but rigorously, scrutinise the Scottish Government's forecasts.

In academia the integrity of research is maintained by the peer review process, but increasingly also by ensuring other researchers have access to sufficient information to enable them to replicate the findings of published studies. As I suggested in answers to earlier questions, I believe that following this approach as far as practically possible should have similar benefits in transparently demonstrating the independence of the Fiscal Commission.

**Question 5: Do you hold any other roles or have any business or financial connections which might give rise to or be perceived as being a potential conflict of interest in carrying out your role as a member of the Scottish Fiscal Commission?**

None.

## **Curriculum Vitae**

### **Employment:**

June 2005 -	Professor of Macroeconomics, Department of Economics, <b>University of Glasgow</b>
October 2003 – June 2005	Senior Lecturer, Department of Economics, <b>University of Glasgow.</b>
May 1999 – September 2003	Lecturer, Department of Economics, <b>University of Glasgow.</b>
October 95 – April 1999	Research Officer, Department of Economics, <b>University of Exeter.</b>
October 93 - September 95	Research Fellow, Department of Economics, <b>University of Strathclyde</b> , Glasgow.
October. 92 - September 93	Research Assistant, Department of Economics, <b>University of Strathclyde</b> , Glasgow

### **Higher Education:**

October 95 – June 99	<b>PhD in Economics</b> , University of Exeter. Supervisor: Professor Simon Wren-Lewis.
October 93 - September 95	<b>MSc in Economics (Distinction)</b> , University of Glasgow.
October 88 - September 92	<b>B.A.(Hons) in Accounting and Economics</b> , University of Strathclyde.

### **Research Interests:**

My general research interests are in the area of New Keynesian Macroeconomics, utilising micro-founded general equilibrium models. In particular my research has

included theoretical and empirical analyses of monetary and fiscal policy in both closed and open economies. However, my research interests are not limited to this area.

### **Teaching Experience:**

I have taught a broad spectrum of courses at both undergraduate and post-graduate level including Financial Economics, Advanced Macroeconomics, Intermediate Macroeconomics, Government and the Economy, Economics for Management, Macroeconomic Modelling, and International Banking. This teaching has included a contribution to the core and Advanced Macroeconomics classes of the Scottish Graduate Programme in Economics at the University of Edinburgh. I also supervise postgraduate research undertaken as part of Masters and PhD study. Finally, I am a member of the Higher Education Academy (formerly the Institute of Learning and Teaching).

### **Editorial Positions:**

- Co-Editor, B.E. Journal of Macroeconomics 2010-12.
- Co-Editor, Scottish Journal of Political Economy, 2003-12.
- Associate Editor, European Economic Review, 2011-.

### **Research Network Affiliations:**

- EACBN, Euro Area Business Cycle Network.
- CDMA, Centre for Dynamic Macroeconomic Analysis, University of St Andrews.
- CYCIT Research Network, Spain.

### **Recent Seminars/Workshops:**

Aside from participating in the usual international conferences, I have also been invited to present papers at the following institutions:

- Central Banks: Bank of Austria, Bank of Canada, Bank of England, Bank of Spain, Bundesbank, European Central Bank, Riksbank (Sweden) , Swiss National Bank.
- Universities: Aberdeen, Amsterdam, Birmingham, Bonn, Cambridge, Cologne, Dortmund, Edinburgh., Exeter, Indiana, Kent, Lancaster, Loughborough, Madrid, Mainz, Milan, Oxford, Reading, Sheffield, St Andrews, Stirling, Strathclyde, Surrey, Valencia,
- Other: CES-ifo (Munich), EER Symposium (Philadelphia), HM Treasury.

### **External PhD Examinations:**

- Cambridge, Durham, Essex, Exeter, Indiana, Oxford, Valencia, Warwick.

### **Completed PhD Students:**

- Dr Raffaele Rossi, Lancaster University, UK.
- Dr Dario Pontiggia, Neapolis University, Cyprus.
- Dr Alexander Kadow, Bundesbank, Germany.
- Dr Alexander Richter, Auburn University, US.

**Conference Organisation:**

- International Macroeconomics Workshop, Valencia/Madrid (alternate years), 2006-2009
- European Economic Association, Glasgow 2010
- Money, Macro, Finance Annual Conference, 2003.
- RES Program Committee, 2012-2014.

**Journal Refereeing:**

- American Economic Review, Economic Journal, Economics of Transition, European Economic Review, Journal of Economic Dynamics and Control, Journal of Economic Growth, Journal of Economic Theory, Journal of the European Economic Association, Journal of International Economics, Journal of International Money and Finance, Journal of Macroeconomics, Journal of Macroeconomic Dynamics, Oxford Bulletin of Economics and Statistics, Oxford Economic Papers, Review of Economics and Statistics and the Review of Economic Studies.

**Additional Professional Activities:**

- Member of Economics and Econometrics Sub-Panel and Focus Group for Main Panel C for the UK Research Excellence Framework, REF2014.
- Member of Economics and Econometrics Sub-Panel for the UK Research Assessment Exercise (RAE) 2008.
- Consultant for HM Treasury (see details of projects below).
- Member of ESRC's College for Grant Evaluation.
- Fellow of the Royal Society of Edinburgh.
- Member of Royal Society of Edinburgh Sectional Committee.

**Publications:****I. Chapters in Books**

Leith, C. C-W Li and C Garcia-Penalosa (2003), "Wage Inequality and the Effort Incentive Effects of Technical Progress", in Eicher, T. and S. Turnovsky (eds), *"Growth and Inequality: Issues and Policy Implications"*, MIT Press, pp293-318. ISBN 0-262-05009-2

Leith, C. and S. Wren-Lewis (2002), "The Macroeconomic Impact of Different Speeds of Debt Stabilisation in EMU" in Beetsma, R., C. Favero, C. Misalle, A. Muscatelli and P. Natale, (eds), *"Fiscal Policies, Monetary Policies and Labour Markets. Key Aspects of European Macroeconomic Policies after Monetary Unification"*, Cambridge University Press. ISBN 10-0521823080.

Leith, C. and S. Wren-Lewis (2000), "How Tough Should Monetary Policy be if Inflation is Forward Looking?" Chapter 10 in Holly, S. and M. Weale (eds), *"Econometric Modelling: Techniques and Applications"*, Pub. Cambridge University Press, pp 237-253. ISBN 0521650690.

**Comments in Books**

Leith, C. (2006), "Comment on the Economic Importance of Fiscal Rules", Pub in *The Travails of the Eurozone – Economic Policies, Economic Developments*, D. Cobham (Ed). Pub. By Palgrave Macmillan ISBN 0230018920.

## II. Full Papers in Refereed Journals

Leith, C. and S. Wren-Lewis, "Fiscal Sustainability in a New Keynesian Model", *Journal of Money, Credit and Banking*, forthcoming.

Bi, Huixin, E. Leeper and C. Leith, "Uncertain Fiscal Consolidations", *Economic Journal*, Volume 123 (566), pp F31-F63.

Leith, C., Moldovan, I. and Rossi, R. (2012) "[Optimal monetary policy in a new Keynesian model with habits in consumption](#)", *Review of Economic Dynamics*, vol. 15(3), pp 416-435.

Leith, C. and Wren-Lewis, S. (2011). 'Discretionary policy in a monetary union with sovereign debt', *European Economic Review*, Volume 55, Issue 1, January 2011, pp 57-74.

Haruyama, T. and Leith, C. (2010). 'Unemployment and the productivity slowdown: an efficiency wage perspective', *Japanese Economic Review*, vol. 61(3), (September), pp. 301-319.

Leith, C. and Wren-Lewis, S. (2009). 'Taylor rules in the open economy', *European Economic Review*, vol. 53(8), (November), pp. 971-995.

Kirsanova, T., Leith, C. and Wren-Lewis, S. (2009) 'Monetary and fiscal policy interaction: The current consensus assignment in the light of recent developments', *Economic Journal*, vol. 119(541), (November), pp. F482-F496.

Leith, C. and S. Wren-Lewis (2008), "Interactions between Monetary and Fiscal Policy under Flexible Exchange Rates", *Journal of Economic Dynamics and Control*, vol. 32(9), (September), pp. 2854-2882.

Leith, C. and L. von Thadden (2008), "'Monetary and fiscal policy interactions in a New Keynesian model with capital accumulation and non-Ricardian consumers", *Journal of Economic Theory*, vol. 140(1), (May), pp. 279-313.

Leith, C. and J. Malley (2007), "Estimated Open Economy New Keynesian Phillips Curves for the G7", *Open Economies Review*, vol. 18(4), (September), pp. 405-426.

Leith, C. and J. Malley, (2007) "A Sectoral Analysis of Price-Setting Behavior in US Manufacturing Industries", *Review of Economics and Statistics*, vol. 89(2), (May), pp. 335-342.

Andres, J., Domenech, R. & Leith, C. (2006), "Fiscal Policy Macroeconomic Stability and Finite Horizons," *Scottish Journal of Political Economy*, vol 53(1), p 72-89.



Kirsonova, K. C. Leith and S. Wren-Lewis (2006), "Should Central Banks Target Consumer Prices or the Exchange Rate?," The *Economic Journal*, 116, pp 208-231.

Leith, C. and S. Wren-Lewis (2006), "Compatibility Between Monetary and Fiscal Policy Under EMU", *European Economic Review*, vol. 49(8), (November), pp. 2137-2159.

Leith, C. and S. Wren-Lewis (2006), "Fiscal Stabilisation Policy and Fiscal Institutions", (2005) *Oxford Review of Economic Policy*, vol 21, pp 584-597.

Leith, C. and J. Malley (2005), "Estimated General Equilibrium Models for the Analysis of Monetary Policy in the US and Europe". *European Economic Review*, 49(8), pp 2137-2159.

Leith, C, P. Warren and S. Wren-Lewis (2002), "Fiscal Policy, Interest Rate Shocks and Prices", *Economic Modelling*, Vol. 20, pp 361-382.

Leith, C. and S. Wren-Lewis (2001), "Interest Rate Feedback Rules in an Open Economy with Forward-Looking Inflation", *Oxford Bulletin of Economics and Statistics*, Vol. 63(2), pp 209-232. ISSN 1468-0084.

Leith, C. and S. Wren-Lewis (2000), "Interactions Between Monetary and Fiscal Policy Rules", *Economic Journal*, Vol. 110 No. 462, pp 93-108.

Darby, J., J. Ireland, C. Leith and S. Wren-Lewis, (1999), "COMPACT - An Intertemporal Rational Expectations Model of the UK Economy", *Economic Modelling*, Vol. 16(1), pp 1-52.

### **Papers under Revision for Refereed Journals**

Leith, C., I. Moldovan and R. Rossi, "Optimal Monetary and Fiscal Policy under Deep Habits", revise and resubmit with the *Journal of Economic Dynamics and Control*.

### **Other Significant Contributions to Journals**

Leith, C, (2004), "Monetary and Fiscal Interactions in Open Economies: A Comment on Lombardo and Sutherland (2004)", *Journal of Macroeconomics*, Vol. 26(2), pp 349-352. ISSN 0164-0704.

### **Conference Contributions**

My research papers have been presented at numerous conferences and have often been made available through associated electronic publications, see for example my profile on IDEAS, see <http://ideas.repec.org/e/ple41.html>.

### III. Research Reviews and Research Reports.

Leith, C. and Wren-Lewis, S. (2004), "ESRC End-of-Award Report: Interactions Between Monetary and Fiscal Policy". Rated as 'outstanding' by external referees.

Leith, C. and S. Wren-Lewis, (2004), "Fiscal Stabilisation in EMU: A Survey of Policy Issues and Design Issues", Report for HM Treasury.

Leith, C. and S. Wren-Lewis, (2005), "A Baseline Model for the Analysis of Fiscal Stabilisation in EMU", Report for HM Treasury.

Leith, C. and S. Wren-Lewis (2008), "ESRC End-of-Award Report: Reinstating Fiscal Policy as a Stabilisation Device". Rated as 'outstanding' by external referees.

Leith, C. and S. Wren-Lewis (2012), "ESRC End-of-Award Report: New Directions in Monetary and Fiscal Policy Analysis at the Macroeconomic Level". Rated as 'outstanding' by external referees.

### IV. Policy Proposals.

Leith, C., I. Moldovan and S. Wren-Lewis (2011), "The Optimal Speed of Fiscal Stabilization". *University of Oxford Discussion Paper* no. 542.

This paper was commissioned by the EC and it attempts to quantify the optimal speed of debt stabilisation following the financial crisis.

Kirsanova, T., C. Leith and S. Wren-Lewis (2007), "Optimal Debt Policy, and an Institutional Proposal to help in its Implementation", *European Economy Economic Papers*, No. 275, pp269-296. Reprinted in, *Policy Instruments for Sound Fiscal Policies*, Ayuso-I-Casal, J., S. Deroose, E. Flores and L. Moulin (eds), Pub. Palgrave Macmillan, 2009.

This proposal for the creation of a Fiscal Council was cited by the incoming Conservative Government as providing the rationale for the newly created, Office of Budget Responsibility.

Kirsonova, K. C. Leith and S. Wren-Lewis (2006), "Should Central Banks Target Consumer Prices or the Exchange Rate?," *Economic Journal*, 116, pp 208-231.

This was a proposal to change the UK's inflation target from consumer to output price inflation.

### All other Outputs

My work-in-progress is often listed on electronic databases. For example, with the REPEC and SSRN electronic databases (see <http://ideas.repec.org/e/ple41.html> and [http://papers.ssrn.com/sol3/cf\\_dev/AbsByAuth.cfm?per\\_id=234670](http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=234670) ).

### Research Income:

ESRC Grant (2001-2004) £50,000 (£34,000 for Dr. C. Leith) for research on “Interactions Between Monetary and Fiscal Policy” joint with Simon Wren-Lewis (University of Exeter). Rated as ‘outstanding’.

CYCIT Research Project (2003-2005) to facilitate collaboration on “Fluctuaciones y Crecimiento Económico en la UEM. Análisis y Evaluación de las Políticas Económicas con Modelos de Equilibrio General Estocástico”, joint with Alejandro Cuñat (LSE), Rafael Domenech (University of Valencia), Javier Andres (University of Valencia) and Antonio Fatás (INSEAD).

HM Treasury project (2004) on “Fiscal Stabilisation in EMU: A Survey of Policy Issues and Design Issues”, with S. Wren-Lewis (University of Exeter).

HM Treasury project (2005-2008) on “Fiscal Stabilisation in EMU”, with S. Wren-Lewis (University of Exeter).

ESRC Grant (2005-2008) £147,000 (£97,000 for Prof C. Leith as the Principal Investigator) for research on “Reinstating Fiscal Policy as a Stabilisation Device” joint with Simon Wren-Lewis (University of Oxford). Rated as ‘outstanding’.

CYCIT Research Project 4 people from the University of Valencia and five economists based outside of Spain: Alex Cuñat (Essex), Ana Santacreu (NYU), Julen Esteban-Pretel (Tokyo University), Margarita Rubio (Boston College and Banco de España) and myself.

ESRC Grant (2008-2011) £150,000 for research on “New Directions in Monetary and Fiscal Policy Analysis at the Macroeconomic Level” joint with Simon Wren-Lewis (University of Oxford). Rated as ‘outstanding’.

Scottish Government/ESRC PhD Scholarship (2014-2017) for research on “A Dynamic Stochastic General Equilibrium Model of the Scottish Economy” joint with Dr Xiaoshan Chen, University of Stirling.