Funding the Future

# My proposals for improving Scottish Economic Data sugge...

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I am appearing before the Economy, Jobs and Fair Work Committee of the Scottish Parliament at Holyrood on September 19. The committee is reviewing the quality of Scottish economic data with a focus in these issues:

* *Accuracy (how reliable is the data)*
* *Utility (how useful is it)*
* *Interpretation (how to make sense of it)*
* *Scrutiny (what are we measuring and does it encourage effective scrutiny)*

That *committee published the submissions made in advance of that hearing yesterday, my own included. My submission is available in sightly extended form is also available here (some introductory material has been removed by the committee).*

*In that submission I have focused on a number of what I think are the key issues, with an emphasis on GERS (because  this is the issue on which I have focussed to date).*

*The first is the argument, now fairly well rehearsed on this blog, that the methodology of this statement, which claims to be based in the accruals principle but which it is not, renders the data reported not just misleading but quite simply wrong.*

*Second, having noted that this effectively renders GERS redundant as useful economic information I focus on the reforms that are required. In this area it is only the proposals from me and Common Weal that seem to really address this fundamental issue (I will be reviewing the other submissions in another blog, soon).*

*I took the opportunity to lay out quite specific proposals on data could be improved now. I was not making a proposal for an independent Scotland: that is another, separate issue. As I said in my submission my concern was to suggest data that:*

* *Reveals either its source or the body responsible for managing it;*
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*Indicates the degree of control over that issue that any decision maker might have as a result;*

* *Suggests the degree of uncertainty in the data in question;*

* *Provides comparisons between periods;*

* *Provides comparisons with equivalent data sources;*

* *Is designed to be accessible.*

*In every case the aim is to make the data accessible to those who need to use it. As a result I suggested the following reforms that I hope show that my interest in this issue is wholly positive and solution focussed:*

***Scottish Government Expenditure***

***With regard to GERS reporting should start with expenditure because:***

* ***Government exists to spend and not to raise revenue and so spending data is of higher priority;***

* ***More spending is under Scottish control than not at present;***

* ***Most scrutiny will be on this issue as a result.***

***For each category of spend GERS should report:***

* ***Who has made the spend i.e.:***
* ***The Scottish government;***

* ***A Scottish local authority;***

* ***Another Scottish agency;***

* ***The UK government or an agency of it in Scotland;***

* ***The UK government or an agency outside Scotland;***

* ***The spend by each agency;***

* ***The budget set by the government or agency making the spend for that item or a note that no budget was set and that the spend in question is uncontrolled;***

* ***A comparison between spend and actual by agency unless there is no budget when a note of the uncontrolled spend should be made instead;***

* ***A comparison in total for the sum spent, budget and actual spending with the addition of a note on uncontrolled spending in total.***

* ***A comparison with the previous year;***

* ***Any narrative notes required to explain:***
* ***Any changes in the basis of calculating sums noted over time and their impact;***

* ***Any item requiring additional information to ensure proper scrutiny can be undertaken;***

* ***The degree to which the sum expended is based on actual data and the extent to which it is based on estimates and the considered likelihood that the estimates in question are robust, with reasons stated;***

* ***The estimated impact in terms of tax revenue and GDP lost to Scotland as a result of expenditure being incurred outside and not within the country and how this sum has been estimated (the 'multiplier effect' of spending outside Scotland);***

* ***If the expenditure is on capital items these should be categorised sufficiently to allow ensure that the nature of the spend can be readily understood by someone subjecting the spend to scrutiny with the following additional information being disclosed:***
* ***How these sums will be accounted for in the UK's national accounts;***

* ***The estimated life of the assets in question;***

* ***Any specific capital funding (such as PFI) associated with the acquisition of these assets; the sum raised as capital funding as a result and the total cost to be incurred over the life of the assets in paying for the items funded during the year;***

* ***The depreciation to be charged over each of the following five years as a result of the spend incurred in the current year.***

* ***If the spend relates to capital sums other than the acquisition of assets:***
* ***The nature of the spend;***

* ***The reason why it was incurred;***

* ***Any associated costs e.g. in terminating financial arrangements.***

***If this data is presented the design criteria should be met.***

***Reporting Scottish government income***

***With regard to Scottish government income the most important issues to be addressed are:***

* ***Identifying income in Scotland;***

* ***Identifying income for Scotland directly arising on activity undertaken for it outside the country;***

* ***Identifying the revenue lost to Scotland because of the multiplier effect of economic activity for Scotland being undertaken outside the country.***

***At present of these three only the first is attempted, and, as has already been noted, it is usually done by extrapolation from reports for the UK as a whole. As the consultant to this review noted[i]:***

***Compared to ONS statisticians, it's more likely that Scottish Government statisticians would describe themselves as more opportunistic, but relatively powerless, statistical scavengers. The economic statistics published by the Scottish Government tend to pick out relevant data from UK wide surveys and administrative data where possible.***

***This failure to collect relevant, reliable, complete, comparable and comprehensible data that this represents is the single highest priority issue that the Scottish parliament needs to address with regard to the Scottish economic data. Unless there is a willingness to address this issue no reliable economic data for Scotland will be available.***

***This will, in particular, mean that the Scottish government agree with the UK government and with HM Revenue & Customs that the UK national tax authority be asked to:***

* ***Reliably identify those persons tax resident in Scotland, which is a task that is underway but that cannot be said to have been completed as yet;***

* ***Reliably identify businesses trading in Scotland, which tax gap data suggests is an incomplete process[ii];***

* ***Reliably identify those companies that are trading in Scotland, for which there is very little available evidence at present and where there are numerous issues with the management by the Registrar of Companies of the Scottish company register, which along with the register for the UK as a whole sees more than 400,000 companies 'struck off' each year, mainly for failing to comply with their regulatory obligations to file accounts and other data[iii];***

* ***Reliably apportion the income of these people and entities to Scotland over the whole range of taxes for which they might be liable, only a few of which are directly administered in Scotland;***

* ***Appropriately apportion the cost of tax reliefs and allowances (such as the more straightforward ones for pensions and ISAs, to the much more complicated issues of inheritance tax reliefs for agricultural land) to Scotland so that the cost of these to the Scottish economy can be appraised and decisions can be taken on them.***

***This requires change in HMRC procedure with regard to tax returns. If the principles of country-by-country reporting as now adopted by the OECD[iv] were applied to the apportionment of data between UK constituent countries then a sufficiently reliable apportionment formula for sales and business income could be computed if the following were disclosed on tax returns:***

* ***Sales within or from each constituent country of the UK were required to be disclosed on a tax return. For businesses turning over less than, say, £10 million with more than ninety per cent of their activities within one constituent country this disclosure may not be necessary. This data is not onerous data to collect: almost all existing accounting software systems could be easily adapted to supply it;***

* ***Sales to each constituent country of the UK were required to be disclosed on a tax return, with similar points to those made in the previous paragraph being repeated in this case;***

* ***The location by constituent country of the staff employed (on an averaged basis) by the business during the year;***

* ***The location of the tangible assets of the business by constituent country during the year: again, if more than 90% were in one country no further disclosure would be needed.***

***Using this data:***

* ***VAT data could be directly apportioned to constituent countries on a destination basis;***

* ***Income tax and corporation tax revenues from trade could either be directly apportioned in many cases or could be apportioned on a weighted formula basis in others using the principles of unitary taxation[v]. The suggested weighting would be to allocate one third of tax adjusted income weighted on sales by origin, one third by location of employees and one third by location of assets. For large groups the weighting would have to be based on consolidated data;***

* ***Income tax from employment and investment income could be directly***

***attributed, as could most other direct taxes;***

* ***National insurance liabilities could be appropriately apportioned.***

That said:

* ***Existing methodologies could be used for devolved taxes;***

* ***Other methodologies would need to be reviewed to bring them into line with this new method of working.***

***The result would be that an internationally accepted method of estimating the location of where economic value arises from tax data would be in use for attributing revenues to Scotland and other UK countries. Simplified data might assist English regional accounting.***

***This would then only need the estimated tax due on expenditure for Scotland to be calculated, along with its multiplier effect. Detailed methodologies for this would not be difficult to construct.***

***It should however be noted that the appraisal of Scottish government revenue on this basis should be explicitly adjusted to allow for:***

* ***The tax gap, i.e. the revenue which HMRC is unable to collect for Scotland;***

* ***The cost of allowances and reliefs, especially if decisions upon those allowances and reliefs are not made in Scotland.***

***This means that both the gross potential and net actual tax revenues for Scotland could also be estimated, resulting in an estimate of the policy and compliance tax gaps for Scotland also being available, allowing functional decision making on the resources to be allocated to tackling such issues to be made within Scotland when at present it has almost no say on such matters.***

***Reporting surpluses or deficits***

***The reporting of surpluses and deficits for Scotland has been undertaken to date by comparing accrued incomes with accrued expenditure, with or without allowance for capital spending depending upon the balance reported. As has been noted there are deficiencies in this approach which space does not allow to be fully addressed. It would however, and in summary, be desirable that any new statement of this type be supported by:***

* ***A Scottish balance sheet, but if this could not be prepared, then,***

* ***A statement on the movement in the net investment made in government funded infrastructure in Scotland during the period, and***

* ***A statement of how the surplus or deficit reported impacts on the liabilities***

***of the Scottish government, Scottish local government, other Scottish government agencies and other government agencies and the likely impact that these liabilities (if any) might have on the agencies in question.***

***To ensure that this data can be properly appraised the impact of funding accounted for within any GERS statement resulting in any enhanced asset worth in Scotland, whether tangible or intangible, must also be estimated so that the net impact of spending on likely future income streams can be appraised. Only then is appropriate information for genuine economic decision making likely to be available for use by those working on these issues in Scotland.***

***[i] http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/Economic_statistics_report.pdf page 14***

***[ii] https://www.gov.uk/government/collections/measuring-tax-gaps***

***[iii] http://www.taxresearch.org.uk/Documents/Intheshade.pdf***

***[iv] http://www.oecd.org/tax/automatic-exchange/about-automatic-exchange/country-by-country-reporting.htm***

***[v] https://www.taxjustice.net/2014/01/14/towards-unitary-taxation-transnational-corporations-sol-picciotto/***