



Chartered
Institute of
Taxation

Excellence in Taxation

Budget Process Review Group: Interim Report Response by the Chartered Institute of Taxation

1 Introduction

- 1.1 This is a response by the Chartered Institute of Taxation (CIOT) to the Interim Report of the Budget Process Review Group, published for consultation in March 2017. We welcome the opportunity to offer our comments.
- 1.2 The Finance and Constitution Committee of the Scottish Parliament established the Budget Process Review Group for the purpose of carrying out a fundamental review of budgetary scrutiny. The key reason behind the review is to ensure that the budget process accommodates the Scottish Parliament's new financial powers as well as the operation of the Fiscal Framework. As a result of both the Scotland Act 2012 and the Scotland Act 2016, the Scottish Parliament now has powers to both raise and allocate revenue, where previously the Scottish budget was mainly concerned with expenditure.
- 1.3 As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 1.4 Our stated objectives for the tax system include:
 - A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences.
 - Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
 - Greater certainty, so businesses and individuals can plan ahead with confidence.
 - A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
 - Responsive and competent tax administration, with a minimum of bureaucracy.

- 1.5 Our area of expertise is taxation; as such we have not commented on the themes or responded to the questions outwith our remit, and our response is necessarily focussed on the revenue-raising element of the budget process.

2 Executive summary

- 2.1 We welcome the consultative approach adopted and the fact that this consultation is intended to be a starting point for discussions between the Scottish Government, the Scottish Parliament, Audit Scotland and other bodies and civic Scotland, with the aim of developing an effective budgetary scrutiny process.
- 2.2 In May 2016, the CIOT launched a joint project with the Institute for Government (IfG) and the Institute for Fiscal Studies (IFS) to look at how to improve the process around UK budgets and tax policy-making.¹ In our experience, key elements in making good tax policy are an open, consultative process involving all affected stakeholders and effective scrutiny. The authors of the report undertook research, by carrying out interviews, receiving written submissions and holding roundtables, one of which was held in Edinburgh, involving tax policy specialists from Scotland. The outcome from the project was a report published in January 2017, 'Better Budgets: making tax policy better'.² Although some of the recommendations are inevitably specific to the UK budget and tax policy-making process, others have relevance to Scotland and we would invite the Budget Process Review Group to take the report into consideration as part of their work. For example, the report contains ideas about how to engage the public and improve scrutiny, both by parliament and the public.
- 2.3 Key aims should be for the budget process to be transparent and for budgetary scrutiny to be robust and effective with the objective of ensuring Scottish Government accountability for budget decisions. In addition, it is important that there is better public debate in relation to the budget. This will help to ensure informed decisions by politicians and hopefully result in better public understanding and support.
- 2.4 When developing aims and principles for the budget process, there needs to be recognition of the constraints on tax-raising powers. In particular, there are currently only two fully-devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), which account for a relatively small proportion of tax revenues; Air Departure Tax is to be devolved with effect from April 2018. 'Scottish income tax' will provide a significant proportion of tax revenues, but the powers relate only to the setting of rates and bands for 2017/18 onwards, and apply only to the non-savings and non-dividend income of Scottish taxpayers. Therefore the interdependence between the Scottish and UK budget processes necessarily remains high, because Scotland continues to rely on the block grant from the UK for around half of its funding.

¹ <http://www.tax.org.uk/media-centre/blog/media-and-politics/institutes-launch-new-project-tax-policy-making>;
<http://www.tax.org.uk/media-centre/blog/media-and-politics/treasury-committee-chairman-sets-out-tax-scrutiny-ideas>

² <https://www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better>;
<http://www.tax.org.uk/media-centre/blog/media-and-politics/better-budgets-report-launch-and-ministers-response>;
<http://www.tax.org.uk/media-centre/press-releases/press-release-use-new-budget-springboard-wider-tax-policy-reform>

3 Theme 1: How effective is the existing budget process?

- 3.1 We understand that there are concerns that the existing budget process is not as transparent as it might be, and that the scrutiny performed by the Scottish Parliament could be more robust. This is partly because of the use of pre-legislative consultation and dialogue between the Scottish Government and other parties leading to amendments in the draft budget, rather than amendments coming from parliamentary committees or the Scottish Parliament. Moreover, the decision to delay the publication of the draft budget until after the UK Government's autumn statement has reduced the time available for parliamentary scrutiny.
- 3.2 The overall effectiveness of the budget process might be improved if the Scottish Government were to set out clear statements, perhaps near the start of a new parliament, of what they are trying to achieve during the course of the parliamentary term. This might assist parliamentary scrutiny, post-legislative review and might also improve public engagement and debate.

Principles Based Approach

1. *What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?*

- 3.3 Given the existing Financial Issues Advisory Group (FIAG) principles relate to a budget process designed for a mainly expenditure budget, it may be appropriate to review them in the light of the budget now dealing with both raising and allocating revenue. A review could undertake to ensure the principles are in line with international principles, where relevant.
- 3.4 We think the principles should include reference to fiscal reports, forecasts and risk analysis with a view to ensuring transparency in the budget and its scrutiny, as set out in the International Monetary Fund's (IMF) Fiscal Transparency Code.³ The current FIAG principles make no explicit reference to transparency, but it is essential that the budgetary scrutiny process is transparent in order for it to be effective and robust. So for example, as set out in the Organisation for Economic Co-operation and Development (OECD) principles, budget documents and data should be open, transparent and accessible.⁴

Full Year Approach

2. *Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?*

- 3.5 We think that a full-year approach to budget scrutiny should be pursued.
- 3.6 There are possible challenges, especially initially, in that there may not be the necessary capacity, skills or experience within the Scottish Parliament. Conversely, by taking a full-year approach, it may be possible to spread the burden of work. It should also assist in supporting a multi-year or long-term approach, and may assist in ensuring that the Scottish budget process is not adversely affected by the change to an autumn budget by the UK Government. It would allow the Scottish draft budget to follow the UK budget, with some scrutiny taking place prior to the budget and feeding into the budget process.

³ <http://www.imf.org/external/np/fad/trans/>

⁴ <http://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm>

- 3.7 A full year approach would also allow post-budget and post-legislative scrutiny and evaluation to take place, which would assist in holding government to account for the effects of their revenue-raising and spending decisions. The purpose of this would be to work out what is working well and what is not working well, thus informing future decisions. It would also hold ministers and officials to account for the quality of decisions and implementation of those decisions.

Public Engagement

3. How effective is current public engagement in the budget process and how can this be improved?

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

5. What should be the purpose of public engagement on the Scottish Budget?

- 3.8 According to paragraph 36 of the Interim Report, during scrutiny of the draft budget 2017/18, a public engagement initiative resulted in 24 eligible questions being submitted via social media. 3,400 views of the evidence session on social media were recorded. These appear to be relatively low numbers, but this could be viewed as an initial trial, so it would be informative to see how (and whether) numbers improve in the future. However, it is important to remember that social media is a selective means of gaining views, since those who share views on social media platforms tend to be self-selecting.⁵ Therefore, in addition to making use of the Scottish Parliament's social media channels to engage with the public, other methods of engagement could be used, such as surveys and public meetings.
- 3.9 While providing a variety of channels is obviously necessary in order to facilitate public engagement in the budget process, it is also essential to ensure that the information provided to the public is clear, informative and transparent. The current draft budget document is confusing and complex, and therefore discourages and even prevents public engagement. Improvements in presentation and clarity, such as those suggested by the Fraser of Allander Institute,⁶ would encourage and enable public engagement.
- 3.10 In relation to tax specifically, the quality of public understanding and engagement with the tax system is quite low. This is probably also true of other aspects of the draft budget. This makes it difficult to have a sensible public debate about possible options. Given the current low level of understanding, one approach is to use simplified surveys to engage the wider public alongside more detailed and technical traditional consultation papers, as exemplified by HMRC's Making Tax Digital survey, which covered in brief the six Making Tax Digital consultations, and received over 1,200 responses.⁷
- 3.11 As noted in the joint CIOT-IFS-IfG report,⁸ PwC used a 'citizens' jury' approach to consult with the general public about tax in 2014.⁹ This helped the jurors to understand the trade-offs involved in tax decisions as well as the political barriers to

⁵ Those using social media may also give vent to more extreme views, according to research:

<https://journalistsresource.org/studies/society/social-media/facebook-political-polarization-data-science-research>

⁶ <https://fraserofallander.org/2017/01/18/6-reforms-for-the-scottish-budget-process/>

⁷ <https://www.gov.uk/government/consultations/making-tax-digital-for-business-an-overview-for-small-businesses-the-self-employed-and-smaller-landlords>

⁸ Chapter 3.7, page 41, <https://www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better>

⁹ <http://www.pwc.co.uk/issues/futuretax/june-2014-the-people-decide.html>

change. This jury involved only 22 people, however, so such an approach is impractical if the aim is to reach more than a handful of individuals.

- 3.12 Another method of increasing public awareness, understanding and engagement with the draft budget would be to make use of external reviews. These involve outsiders in helping to think through possible options and they typically result in greater public engagement, thus improving the public debate.

Stage 2 (Draft Budget Scrutiny Phase)

6. What should be the core objectives of parliamentary scrutiny of the draft budget?

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

- 3.13 The aims of parliamentary scrutiny of the draft budget should include holding the Scottish Government to account with regards to its decisions, ensuring the budget is fiscally sound, checking that the plans therein are implemented effectively, making the budget plans transparent and giving the public the opportunity to comment.
- 3.14 Given the increasing powers over revenue-raising, it might be appropriate for there to be a new parliamentary committee, with the responsibility for scrutiny of taxation legislation generally and also the revenue-raising aspects of the draft budget. Regardless of whether or not this suggestion is followed-up, given the significant role for parliamentary committees in the Scottish parliamentary system (in part due to the unicameral nature of the Parliament), it might be helpful if there were fewer committees. These could then be larger and MSPs could sit on one committee only, which might assist them to build up knowledge and expertise in their committee area.
- 3.15 Given most of the budget concerns spending, it might also improve scrutiny and transparency if the Scottish Government were to indicate its financial priorities for the year ahead earlier in the budget process.
- 3.16 The new UK autumn budget process, to commence from autumn 2017, together with the increase in devolved responsibilities, mean that it is preferable from the point of view of certainty, for the Scottish Government to delay the Scottish draft budget until after the UK budget. This is because the UK budget will provide up-to-date figures in respect of the block grant and the block grant adjustments, which will affect the Scottish draft budget. The delay, however, reduces the time for scrutiny of the Scottish draft budget. If the Scottish Government were to publish the draft budget prior to the UK budget, it would be subject to significant uncertainty. So although there would in theory be more time for parliamentary scrutiny, this might be hindered by the lack of certainty surrounding the draft budget.
- 3.17 The budget documents are aimed both at the general public and Members of the Scottish Parliament (MSPs). In terms of improving the transparency of draft budget documents, it would be helpful to try to separate out objective content and political content. We acknowledge that this may be difficult in practice, particularly as ingrained biases and group-think can mean that a group of fairly like-minded individuals might perceive something as objective when in fact it is political, or at least subjective. It may also be worth considering separating out a simple, clear report for the general public from detailed financial and statistical content. In respect of this issue, also see paragraph 3.9 above.

- 3.18 Where numbers are published, there should be a consistent approach and comparatives to prior years; if the method of presentation changes or differs within or between documents, there need to be clear explanations and reconciliations. In addition, figures should be presented such that they are easy to understand and follow. By way of example, the arithmetic of the first table in the draft budget for 2017/18 is extremely difficult to follow.¹⁰ Inter-relationships between different analyses of figures should be explained clearly. It would also be helpful to include an explanation of the relationship with and interaction between UK expenditure and that of the Scottish Government. Alongside tables, use should also be made of pictorial representations of numbers, such as bar charts, pie charts and graphs. Some people are 'numbers-blind' and may be better able to understand data if represented graphically rather than in tabulated form.

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

- 3.19 It is not ideal that timetable considerations generally mean the three Budget Bill stages have to take place in three consecutive business weeks. This further reduces the opportunity for effective consideration and scrutiny.
- 3.20 The Parliament should have the opportunity to lodge amendments to the Budget Bill. The current process means that the wording of the Bill may never receive direct parliamentary scrutiny. In addition, since the process lacks scrutiny by a body independent of the Parliament, there is little likelihood of different views or second opinions being expressed. Stage 2 and stage 3 scrutiny is effectively carried out by the same MSPs in a relatively short space of time.
- 3.21 While the Budget Bill is considered to be the final stage in the current budget process, preceded by opportunities for pre-legislative discussions, committee reports and parliamentary debates, the shortened timescale imposed on the pre-legislative phases in recent years (due to waiting until after the UK autumn statement), means that the preceding stages have not allowed for as effective scrutiny as would have been hoped for when the budget process was originally designed.
- 3.22 In terms of tax changes, particularly in relation to rates and bands, it is noticeable that Scotland does not have an annual Finance Bill. The addition of an annual Finance Bill would provide a practical avenue for effecting such annual changes, and also might allow for more scrutiny of them.¹¹

¹⁰ Table 1.01: Scottish Government Departmental Expenditure Limits 2015-16 to 2019-20, *Scottish Budget: Draft Budget 2017-18*, The Scottish Government, Edinburgh 2016.

¹¹ Examples of annual changes are: confirming business rates, setting income tax rates and bands, setting / changing rates and bands for the devolved taxes (land and buildings transaction tax, Scottish landfill tax, and from 1 April 2018 air departure tax).

4 Theme 2: What is the impact of the Fiscal Framework?

- 4.1 The Fiscal Framework is complex, meaning that transparency may be difficult to achieve.

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- *the adjustments to the block grant;*
- *the reconciliation process, including interim outturn information;*
- *borrowing powers;*
- *the Scotland Reserve.*

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- *the adjustments to the block grant*
- *the reconciliation process, including interim outturn information*
- *borrowing powers*
- *the Scotland Reserve*

For example, should these new aspect be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

- 4.2 To improve transparency around tax decisions and their effects, estimates and forecasts of costs or revenues of tax decisions should be published. In terms of devolved tax revenues, the performance should be published, including comparatives with the UK equivalent and with original forecasts and estimates. Explanations of divergences should be included. The data and methodologies used to produce forecasts should also be published.
- 4.3 Similarly, we would expect the publication of the methods used to calculate block grant adjustments, together with the data used within them and explanations of that data.
- 4.4 It would also be helpful if there was more up-to-date information concerning Scottish taxpayers, both in terms of numbers and income levels, and incoming and outgoing Scottish taxpayers.
- 4.5 As noted above, (paragraph 3.14), the additional powers of the Scottish Parliament may mean that it is appropriate for there to be an additional committee, with a taxation remit. If such a committee existed, it might be possible for that committee to undertake scrutiny of the operation of the Fiscal Framework.

5 Acknowledgement of submission

- 5.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

6 The Chartered Institute of Taxation

- 6.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 18,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Chartered Institute of Taxation
27 April 2017