

**Council of Economic Advisers
Conference Call, 27th August 2018
14:00 – 15:00 [UK Time]**

Participants

Crawford Beveridge – Chair
Harry Burns
Sara Carter
Mariana Mazzucato
Anton Muscatelli
Jim McColl
Joseph Stiglitz
Gary Gillespie – Chief Economist, Scottish Government

Also attending:

Andy Park, Scottish Government
Steven Ing, OCEA, Scottish Government
Angela Nolte, OCEA, Scottish Government
Annabel Arbuthnot, OCEA, Scottish Government

Update on Developments

The Chief Economist updated the Council on progress around the Wellbeing Economy Governments (WEGo) initiative. There is interest from a number of countries, and conversations are ongoing. A launch is planned to take place at the OECD World Forum in South Korea at the end of November. Prior this, countries will be brought together at a meeting on 14 September, hosted by the Scottish Government. Going forward, WEGo will aim to have an annual Summit, and have a policy lab for sharing best practice in delivering Wellbeing Economies.

- Council members noted the progress made, and are supportive of the WEGO supporting delivery of the UN Sustainable Development Goals.
- Several Council members attended a recent vision setting meeting and continue to provide advice on how the group can be most effective.

The Chief Economist highlighted the publication of the Chair's Report covering the Council's work across 2016-18, and thanked the Council for their input.

The Chief Economist updated the Council on the Scottish Centre for Regional Inclusive Growth. The Centre website launched in August, and aims to operationalize inclusive growth, and be a supportive platform for ongoing collaboration across Scotland's regional stakeholders.

- Engagement continues with research staff at Glasgow University to support the evidence based approach to delivering inclusive growth.

The Chief Economist then highlighted that the Programme for Government is under development and will retain an economy focus.

Fiscal Matters

The Council were presented with a paper highlighting new data, research and information on Scottish top earners' behaviour which has emerged since the Scottish Government published its analytical paper, informed by Members' advice, in December 2017. The Council's remit is to provide expert advice ahead of each Draft Budget on the revenue risks, and possible mitigating actions, associated with a rise in the Top Rate of income tax in Scotland. However, the Council is not involved in, or responsible for, advice around whether to change the prevailing Top Rate, or around what the rate should be.

- Council members noted that there have been only a few significant developments in the evidence base; not enough to require a fundamental review of the Council's previous advice. Members therefore agreed that there continues to be a behavioural driven revenue risk which the Scottish Government can only partially mitigate, if the top rate in Scotland were to diverge significantly from the rest of the UK and were content to meet their remit through the publication of these minutes.
- New evidence includes:
 - New survey data from the Survey of Personal Incomes (SPI) suggests that there were 14,600 top rate taxpayers in Scotland in 2015-16 liable to Non Savings Non Dividend (NSND) income tax. Scotland was the only region to record a decline in the number of top earners over this period, however, it is difficult to say if the fall reflects real economic trends or is partly driven by greater volatility in the Scottish data.
 - For the first time, HMRC has published outturn data on Scottish income tax which showed that, at £10.7 billion, income tax was around £550 million lower in 2016-17 than forecast by the Scottish Fiscal Commission (SFC) in May 2018. The outturn data also suggests that, at 13,300, the number of Scottish top earners in 2016-17 is lower than previously thought and also lower than indicated in the SPI
 - While further empirical studies have been published since December - both in relation to top earners' responsiveness and tax motivated cross border mobility within countries – these broadly confirm previous findings that elasticities are likely to fall into the range of 0 to 1, with little evidence for substantial migration effects.
 - The SFC's assumptions about top earners' behaviour are broadly consistent with the Council's 2017 advice.
- The Council were also interested to know when the first Scottish outturn data would be available to evaluate the behavioural response to the 1p rise in the top rate implemented in 2018-19. However, since income tax data is only available with a significant lag, there will be no opportunity to formally assess Scottish top earners' behaviour until May 2021 when detailed micro data from the SPI will be made available. In addition, HMRC will publish outturn receipts for 2018-19 in summer 2020, providing a first indication of how Scotland's income tax policy performed.

Scottish National Investment Bank

The Chief Economist updated the Council on progress around the Scottish National Investment Bank. David Wilson has been appointed as the Programme Director for

the work and took up post on 18 July 2018. A Programme Board will meet monthly and will oversee the establishment of the Scottish National Investment Bank. A consultation on the Bank's objectives, purpose and governance, as well as its relationship with Ministers and stakeholders, will be launched in late August, early September.

- Council members noted that they are keen to ensure the Bank does not revert to traditional operating models but remains mission oriented; ensuring these missions are inter-sectoral. Members also advised that missions have definite evaluation points to determine success after a given number of years.
- Members also advised that to ensure sustainability the Bank needs to identify where social and private returns can be made, and then ensure that both can be assessed. This will include investigating areas that are lacking in patient capital, and accounting for potential spill-overs to other sectors.
- Members noted the approach that has been suggested to build the Bank's portfolio, which will include a reasonable level of risk while also ensuring return on investment, including social return.
- Council members were aware that the consultation and Parliamentary Bill process has the potential to alter the Bank's scope.
- Council members noted the capital structure of the Bank; with initial capitalisation from the Scottish Government and, once the Bank is established, raising capital on the open market. The latter being noted as a positive ambition. In addition, members highlighted that in designing the Bank, consideration must be given to its relation to credit ratings.
- Council members recommend ensuring diversity in the Board of the Bank. Similarly to ensure members are supportive of the role of the public sector in providing investment.
- Members also reiterated the importance of ensuring the Bank differentiates itself from the existing landscape.

AOB

- The next Ministerial meeting is scheduled for later in the year. The refresh of the Council is progressing and the Chief Economist will keep the Council updated.

Actions

- Officials to provide an update on the Wellbeing Economy Governments engagement to date, and an update following the meeting on 14 September.
- Officials to confirm the plans for the next meeting.
- Officials to scope out date for next conference call in late September.

**Council of Economic Advisers Secretariat
OCEA
September 2018**