



House of Commons

Business, Innovation and Skills
Committee

The Implications of Scottish Independence on Business; Higher Education and Research; and Postal Services

Fourth Report of 2014-15

*Report, together with formal minutes relating
to the report, oral and written evidence*

*Ordered by the House of Commons
to be printed 5 August 2014,
pursuant to Standing Order No. 137*

HC 504
[INCORPORATING HC 378-I, II AND III, SESSION 2013-14]
Published on 8 August 2014
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

Current membership

Mr Adrian Bailey MP (*Labour, West Bromwich West*) (Chair)
Mr William Bain MP (*Labour, Glasgow North East*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Paul Blomfield MP (*Labour, Sheffield Central*)
Katy Clark MP (*Labour, North Ayrshire and Arran*)
Mike Crockart MP (*Liberal Democrat, Edinburgh West*)
Caroline Dinenage MP (*Conservative, Gosport*)
Rebecca Harris MP (*Conservative, Castle Point*)
Ann McKeichin MP (*Labour, Glasgow North*)
Mr Robin Walker MP (*Conservative, Worcester*)
Nadhim Zahawi MP (*Conservative, Stratford-upon-Avon*)
The following members were also members of the Committee during the Parliament.
Luciana Berger MP (*Labour, Liverpool, Wavertree*)
Jack Dromey MP (*Labour, Birmingham, Erdington*)
Julie Elliott MP (*Labour, Sunderland Central*)
Margot James MP (*Conservative, Stourbridge*)
Dan Jarvis MP (*Labour, Barnsley Central*)
Simon Kirby MP (*Conservative, Brighton Kemptown*)
Gregg McClymont MP (*Labour, Cumbernauld, Kilsyth and Kirkintilloch East*)
Ian Murray MP (*Labour, Edinburgh South*)
Nicky Morgan MP (*Conservative, Loughborough*)
Chi Onwurah MP (*Labour, Newcastle upon Tyne Central*)
Rachel Reeves MP (*Labour, Leeds West*)
Mr David Ward MP (*Liberal Democrat, Bradford East*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

Committee reports are published on the Committee's website at www.parliament.uk/bis and by The Stationary Office by Order of the House.

Committee staff

The current staff of the Committee are James Davies (Clerk), Amelia Aspden (Second Clerk), Peter Stam (Committee Specialist), Josephine Willows (Committee Specialist), Frances Allingham (Senior Committee Assistant), and Pam Morris (Committee Assistant).

Contacts

All correspondence should be addressed to the Clerk of the Business, Innovation and Skills Committee, House of Commons, 7th Floor, 14 Tothill Street, London SW1H 9NB. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is biscom@parliament.uk

Contents

Report	<i>Page</i>
1 Background	3
2 The impact on business	4
Background	4
Scotland and the European Union	5
Currency	7
3 Regulation	10
Scottish Government White Paper: Financial stability and financial regulation	10
4 The impact on Higher Education	14
Access to Scottish higher education	14
Research funding	15
5 Postal Services	18
Scottish Government White Paper	18
Sustainability of the Universal Postal Obligation	18
Cross-border mail	20
6 Conclusion	22
Conclusions and recommendations	23
Annex	26
Formal Minutes	27
Witnesses	28
Published written evidence	29
List of Reports from the Committee during the current Parliament	30

1 Background

1. In preparation for the referendum on Scottish independence, we decided to consider the impact of a “yes” vote on those areas which are covered by the Department of Business, Innovation and Skills. Our evidence concentrated on three main areas: business, higher education and postal services.

2. We took evidence from business, higher education and postal service organisations in Scotland. This was followed by evidence from the Secretary of State for Business, Innovation and Skills and Rt Hon David Willetts MP, the Minister with responsibility for Higher Education. On a number of occasions we invited Mr John Swinney MSP to give the view of the Scottish Executive. It is a matter of regret that despite being offered a range of dates, Mr Swinney declared himself unable to attend our meetings. In his absence, we have drawn on the Scottish Government’s White Paper to gain an understanding how a “yes” vote would impact on these areas.

3. The forthcoming referendum on Scottish Independence has an impact not just on Scottish businesses and citizens but on all UK citizens and businesses. We thank those organisations which gave evidence to our Committee. It is however, regrettable that the Scottish Government failed to accept our invitation to give evidence or to engage fully with this inquiry.

2 The impact on business

Background

4. In its White Paper, the Scottish Government set out the economic vision on an independent Scotland. It begins by asserting that independence for Scotland would:

... allow us to use our own resources and shape our own fiscal and economic policies for Scottish needs and circumstances. This will ensure greater economic security and opportunity in the future.¹

5. When we were in Scotland however, the view of business organisations was less confident. Uncertainty and lack of information were key areas of concern for them, alongside the position of an independent Scotland in the European Union, the future currency and the regulatory regime. When he gave evidence to the Economic Affairs Committee in the House of Lords, John Cridland, Director General of the CBI, said that uncertainty was “the biggest killer for investment”² and that this characterised the debate on the referendum. This was echoed by the business representatives who gave evidence to us. David Watt, Director at the Institute of Directors, Scotland, said that the uncertainty and lack of clarity was “something that business does not find welcome”.³

6. The Scottish Government published its White Paper on Scottish Independence on Tuesday, November 26, 2013. In his first response, John Cridland stated clearly his belief that business would be better off in the existing United Kingdom:

The CBI believes that the nations of the UK are stronger together and that Scotland’s business and economic interests will be best served by remaining as part of the UK. Our members have been pressing for responses to many key questions on independence that we have put to the Scottish Government and we will study this White Paper closely to decide how far it answers businesses’ questions.⁴

7. In its analysis, the UK Government set out the economic relationship between Scotland and the rest of the United Kingdom, and the dominance of the UK market for Scottish exports:

The rest of the UK is, by far, Scotland’s biggest economic partner. In 2011, Scotland sold goods and services worth £45.5 billion to the UK, double the levels exported to the rest of the world. It is also four times greater than Scottish sales to the rest of the European Union. Overall, exports to the UK represent 29 per cent of Scottish Gross Domestic Product but the importance of the UK market is even higher in some sectors. For example, financial and

1 <http://www.scotland.gov.uk/Publications/2013/11/9348/7>

2 <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldeconaf/152/15207.htm>

3 Q 100

4 <http://www.cbi.org.uk/media-centre/tags/?tag=independence+referendum>

insurance services in Scotland sold nearly half their output in the rest of the UK in 2009.⁵

8. As we approach the day of the referendum it is clear that there is a deep concern about the impact of a yes vote on the future prosperity of Scotland. In particular, there is no certainty that breaking up the UK single market will have economic benefits.

Scotland and the European Union

9. The matter of a separate Scotland's membership of the European Union was a central issue raised by our witnesses from business. While it was clear that the business groups believed it was in the interests of both Scotland and the rest of the UK for Scotland to be in the EU, they all raised concerns as to how this would be brought about.

10. Iain McMillan from CBI Scotland noted that Scotland's continued membership of the European Union was a "controversial question" and that opinions differed on the both the timing and route to membership. He said that while the preference of the CBI was for Scotland to be in the European Union there were "issues around whether that would be so, on what terms and when".⁶ David Watt, Executive Director at the Institute of Directors, Scotland, was also concerned that Scotland's re-admittance into the EU would not be automatic, not least because there was "a queue of countries waiting to get it in as it is".⁷ He went on to argue that while he hoped that Scotland would receive "sympathetic transition arrangements", there was "no guarantee of that".⁸

11. The route to EU Membership is set out in detail in the Scottish Affairs Committee Report on Scotland's Membership of the EU.⁹ That Committee highlighted the difference of opinion between the Scottish Government and others over the route to EU Membership. The Scottish Government believes that Scotland would not have to apply, as it is currently a Member through being a part of the United Kingdom. Therefore, it is seeking a "seamless transition" to membership. This it believes will be done by amending Article 48 of the Treaty of the European Union to include reference to an independent Scotland. Gordon MacIntyre-Kemp, founder of Business for Scotland, supported this view. In evidence to us he argued that the Scottish Government would be able to "renegotiate terms from an existing membership from within the European Union".¹⁰

12. In evidence to the Scottish Government, Jean-Claude Piris, former Legal Counsel of the European Council and Director General of the Legal Service of the EU Council, questioned the validity of that approach:

5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209891/13-635-scotland-analysis-business-and-microeconomic-framework.pdf

6 Q2

7 Q103

8 Q103

9 <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmsscota/1241/124102.htm>

10 Q9

It would not be legally correct to try and use Article 48 of the Treaty on European Union for the admission of Scotland as a member of the European Union. Only Article 49 of the same Treaty would provide for a suitable legal route.¹¹

13. In February 2014, Jose Manuel Barroso, President of the European Commission, stated that “in the case there is a new country, a new state, coming out of a current Member State it will have to apply”.¹² In evidence to us, Iain McMillan, director of CBI Scotland, also highlighted the opinion of Mr Barroso and believed that it was clear that Scotland “could not negotiate its entry to the European Union concurrently with secession negotiations with the UK Government and so it would have to be consecutive rather than in parallel”.¹³

14. Professor Bell, a professor of economics, also highlighted the lack of clarity over these matters:

There are a number of areas that are being discussed quite closely at the moment, but for which I suspect there will be no clear answers prior to the referendum, one of the key ones being what would happen around the currency should Scotland become independent. There is an issue around EU membership, which applies both north and south of the border, I think, of where that might be going and what status Scotland might have potentially post-independence.¹⁴

15. The UK Government is of the view while the rest of the UK would retain the UK’s existing membership and opt-outs, Scotland would have to reapply for EU membership:

Since an independent Scotland would be a new state there is a strong case that it would have to go through some form of accession process to become a member of the EU. It would also have to enter into negotiations on the terms of its membership. It cannot be assumed that Scotland would be able to negotiate the favourable terms of EU membership which the UK enjoys. All new EU Member States have been required to commit to joining both the euro and the Schengen area. The Scottish Government’s stated intention to retain the pound and join the Common Travel Area is at odds with the EU’s rules for new members, and is not in the Scottish Government’s gift.¹⁵

16. In evidence, the Secretary of State also pointed out while Scotland’s re-admittance to the European Union “may well prove to be trouble-free” there was “a big uncertainty around that whole process”:

11 Written evidence to the European and External Relations Committee of the Scottish Parliament

12 <http://www.bbc.co.uk/news/uk-scotland-scotland-politics-26215963>

13 Q2

14 Q99

15 [HM Government Scotland Analysis: EU and International Issues](#)

It could take a long time, it could take a short time, but it is the uncertainty around it that is the problem. It would be damaging for the whole of the UK if that situation arose, and it would be especially damaging for Scotland.¹⁶

17. A further complication raised by the Secretary of State was that the decision did not rest with the UK but required “the assent of all the other European countries”¹⁷ and that “the Scottish Government should not take that for granted”.¹⁸

18. The Scottish Government’s view that an independent Scotland would automatically be a member of the European Union has not been supported by substantive evidence. While we believe that Scotland would become a member of the European Union at some point in the future, it is a leap of faith to believe that this would either happen automatically or that re-admission would be a swift affair. There would be a period of intense and complex negotiation and the terms of those could be damaging to business and citizens. Furthermore, a protracted period of negotiation beyond the proposed 18 months would have a negative impact on business in Scotland as well as the other parts of the United Kingdom. There is a substantial risk that Scotland could be cut adrift in the short to medium term from its largest economic market. The impact of this on Scottish business would be significant.

19. We recommend that both the UK Government and the Scottish Government publish all of their legal advice on the status of Scotland and the EU in the event of a yes vote so that Business can have a clear understanding of the consequences of a yes vote. Without this information it is not possible to make an informed decision on the economic merits of independence.

Currency

20. A key aspect of uncertainty at the time we took evidence was that of the currency in an Independent Scotland. The Scottish Government asked the Fiscal Commission to consider what form of currency would be in the best interests of Scotland. The Commission examined four options:

The continued use of sterling (pegged and flexible);

The creation of a Scottish currency; and

Membership of the Euro.¹⁹

21. According to the White Paper, the Commission concluded that “retaining sterling as part of a formal monetary union with rest of the UK will be the best option”.²⁰ This option would include a formal arrangement whereby:

16 Q166

17 Q165

18 Q167

19 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

20 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

Monetary policy will be set according to economic conditions across the sterling Area with ownership and governance of the Bank of England undertaken on a shareholder basis.²¹

22. While this is now the stated position of the Scottish Government, the White Paper stated that “it would, of course, be open to people in Scotland to choose a different arrangement in the future”.²²

23. Iain McMillan said that the view of CBI Scotland was for an independent Scotland to retain sterling. However, he noted at the time that the Chancellor had “placed a question mark” over that option. He went on to argue that the remaining choices open to an independent Scotland would be to unilaterally decide to use the pound sterling outside of a sterling area, join the euro (once it had completed EU Membership) or to adopt its own currency.²³ However, he said that none of those options were “particularly attractive” and that each would introduce exchange rate costs and exchange rate risks into doing business either with the rest of the UK or other parts of Europe.²⁴ James Barbour, Director at the Institute of Chartered Accountants of Scotland, also highlighted the transaction costs of dealing with a different currency in Scotland as a business concern:

The rest of the UK would still be using sterling and we would then be using the euro, so straight away you have transactions costs. The public, never mind business, do not like transactions costs. You know when you go on holiday and you have to transfer your currency. Even if you were not to spend anything, when you come back you still have less than you went with. It is that feeling. Any barriers to trade would not be welcome by business. If we were in the euro, that is one of the potential issues.²⁵

24. Mr MacIntyre-Kemp also supported the retention of sterling and did not see any obstacle to doing so because Scotland already owned a proportion of it:

We in Scotland have a percentage population share of that. We are not adopting it. We already have it. We will be keeping it and I believe that after a yes vote there will be no political posturing on that because, as I have said before about the size of the deficits, it would actually be extremely silly for the rest of the UK not to want to keep Scotland’s exports within sterling in order to strengthen the sterling zone. Political posturing aside, coming at it from an economist point of view, I would have to say I would expect that deal to be done fairly quickly and sensibly because after the referendum is done most politicians will start to behave in a sensible way.²⁶

21 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

22 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

23 Q2

24 Q2

25 Q135

26 Q14

25. The three main UK parties have ruled out a currency union with an independent Scotland. When he gave evidence to us, the Secretary of State argued that a currency union would require a single central bank and agreements on a fiscal compact and fiscal disciplines. In addition he argued that:

Scotland would have to accept obligations in respect of its deficit financing and in respect of debt, both of which would be highly contentious, and would probably be very difficult for managing the Scottish budget.²⁷

26. He went on to argue that these restrictions would make any currency union “extremely difficult to operate”. As an example, he highlighted the “velvet separation” of Czechoslovakia, which lasted only 33 days, despite support from both of the new nations.²⁸

27. All EU member states have their own central bank and this is a key fiscal structure which underpins the monetary relationship amongst members. We consider the European Union would require a separate Scotland and the Rest of the United Kingdom to have separate central banks. Therefore it is highly unlikely that the EU would permit a sterling zone. Furthermore, we do not believe that the use by a separate Scotland of a “shadow pound” would be acceptable to the EU.

28. The Scottish Government’s economic argument for independence has been based on a belief that Scotland would remain within a sterling zone. Given the views of the three main parties at Westminster, this is no longer a tenable position. A protracted negotiation over Scotland’s status within the EU also puts into doubt the possibility—in the short term—of adopting the Euro. As a matter of urgency, the Scottish Government must now spell out its plans for an alternative currency for an independent Scotland.

27 Q171

28 Q156

3 Regulation

Scottish Government White Paper: Financial stability and financial regulation

29. The Scottish Government's White Paper addresses its proposals for a new regulatory structure in two specific areas. The first addresses the regulation of the financial sector and highlights "the safety and soundness of financial institutions and the overall financial system as a whole", and the second is the "conduct and behaviour of financial institutions and how they interact with their customers".

30. In respect of the first, the White Paper states that:

In light of reforms to improve the resilience of the global financial sector, the clear trend toward cross-border co-ordination and with significant financial firms operating across Scotland and the UK, financial stability policy will be conducted on a consistent basis across the sterling Area. This is in line with the proposal of the Fiscal Commission. It is also consistent with international trends, which includes the creation of a European Banking Union with the European Central Bank taking responsibility for regulating the largest Euro Area banks.²⁹

31. It goes on to state that:

The Fiscal Commission set out that the Bank of England Financial Policy Committee will continue to set macroprudential policy and identify systemic risks across the whole of the sterling Area. There could be a shared sterling Area prudential regulatory authority for deposit takers, insurance companies and investment firms. Alternatively this could be undertaken by the regulatory arm of a Scottish Monetary Institute working alongside the equivalent UK authority on a consistent and harmonised basis.

The Bank of England, accountable to both countries, will continue to provide lender of last resort facilities and retain its role in dealing with financial institutions which posed a systemic risk.³⁰

32. The second aspect of financial regulation would be covered by a Scottish Regulation which would "assume the key responsibilities of the UK Financial Conduct Authority in Scotland". The new regulator would work on a "closely harmonised basis with the UK regulators, delivering an aligned conduct regulatory framework, to retain a broadly integrated market across the sterling area. The regulatory approach will include the application of single rulebooks and supervisory handbooks".³¹

29 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

30 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

31 [The Scottish Government: Scotland's Future: Finance and the Economy](#)

33. In evidence to the Lords Committee on Economic Affairs, John Cridland, Director-General of the CBI, saw the UK single market as a key UK asset which delivered “certainty and level playing field of rules on tax, law and regulation” which assisted economic growth. He saw a risk that two separate nations would lead to a fragmentation of the single market.³²

34. Iain McMillan saw this to be of particular relevance to the financial sector because of the fact that 90% of the clients of the Scottish financial sector resided outside of Scotland. He believed that if Scotland was an independent country there would “inevitably be a divergence of all the laws and the rules and regulation” and that this could add unnecessary complexity to businesses’ administration.³³ The impact of is made clear by the fact that the House of Lords Report noted that Scottish insurers sell 6% of their products in Scotland and 94% to the rest of the UK; and that roughly 16% of mortgages sold by Scottish firms are to Scottish postcodes and 84% to the rest of the UK.³⁴

35. Jo Armstrong Independent Economic Researcher, Centre for Public Policy for Regions (CPPR), University of Glasgow, noted that the Scottish Government had produced “a fairly broad-brush paper on the regulatory framework they would be looking to establish” but acknowledged that, at present, Scotland lacked some of the skills needed to run it efficiently and effectively.³⁵ Until that skill shortage was addressed she said that there would need to be “some sort of arrangement by which some of the regulatory structures continue to perform for the benefit of Scotland”.³⁶ In summary, she asserted that there would be a “requirement to piggyback off the back of existing activities in the UK” which would require “a world of negotiation and potential service level agreements or transition periods”.³⁷

36. Iain McMillan argued that there could be economies of scale to be gained from sharing regulators but warned that a UK-wide regulator may not regard a small matter in Scotland as being “top priority”, whereas an independent regulator in Scotland would.³⁸ He further highlighted the fact that in the longer-term, businesses which currently deal with one regulator would have to deal with two.³⁹

37. In respect of financial services, Iain McMillan believed that EU law required separate regulators in an independent Scotland and the rest of the United Kingdom. He argued that this would not only result in additional costs to business but would also introduce a “whole panoply of laws and rules and taxes”:

32 [Economic Affairs Committee, House of Lords](#)

33 Q2

34 [Economic Affairs Committee, House of Lords](#)

35 Q15

36 Q15

37 Q15

38 Q15

39 Q15

Over time, businesses may be dealing with a different corporation tax regime, for example, north and south. Corporation tax may come down in Scotland. The business rate has not. There is power for that now; it has not come down. The corporation tax could, but then it would have to come down to at least an extent that would offset the cost of having to segregate taxable profits north and south of the border and also the compliance costs with HMRC south of the border and a Scottish revenue authority. Again, this is quite an expensive thing to look at.⁴⁰

38. Gordon MacIntyre-Kemp argued that the “political union and the economic policy that we get from Westminster” did not work and therefore this was what independence would lose. However, he argued that the independence he wished to see was one where “we keep the bits where collaboration and cooperation work and we lose the bits where it does not”.⁴¹ In that respect he believed that it was feasible for Scotland to share some of regulators with the rest of the UK as they would be covering an open trade zone.⁴² He went on to argue that such an arrangement would be to the benefit of Scotland because a shared regulator give it “more say than we have currently”.⁴³

39. Mr MacIntyre-Kemp acknowledged that any shared regulation would be subject to “a huge piece of negotiation” but believed that once the referendum was over “cool heads” would find that there were “ways and means to come up with an optimum solution in terms of regulation for both Scotland and the rest of the UK”.⁴⁴

40. However, the UK Government does not appear to share Mr MacIntyre-Kemp’s optimism:

In the event of the creation of an independent Scottish state, the UK’s national institutions would operate on behalf of the continuing UK as before. They would have no automatic power or obligation to act in or on behalf of an independent Scottish state, and any future request to make use of arrangements that exist in the continuing UK would be subject to negotiation.

New regulations and institutions would create uncertainties for businesses and investors during the transitional phase and long term difficulties for businesses operating across an independent Scottish state and the continuing UK. Businesses would have to absorb the burden of regulatory divergence, which is likely to increase over time. Smaller businesses could be disproportionately affected.⁴⁵

40 Q15

41 Q15

42 Q16

43 Q17

44 Q18

45 [HM Government, Scotland Analysis: Business and microeconomic framework](#) page 35

41. When he gave evidence to us, the Secretary of State argued that a separate regulatory system in Scotland was an unnecessary additional burden for business:

Of course, it does two things. It raises costs; somebody has got to pay for that regulator, and regulators are normally financed by levies on their industry—certainly that is true in the UK—and it does create uncertainty about what that regulatory regime might be. As you know, because you have interrogated people at the UK level, the rules are often very complex.⁴⁶

42. It is not in the interests of business to impose an additional layer of regulation, especially where there is no benefit to either business or the consumer. This will be the inevitable outcome of a vote for independence. The Scottish Government's ambition to deliver a regulatory framework which is aligned to that in the UK is an impractical approach, given the likely divergence in the two economies over time. A significant proportion of our businesses are highly integrated across the United Kingdom. To disaggregate them as a result of independence would have a negative impact on them and the services they provide.

43. The benefits to business of a single UK Market should not be underestimated. As we approach the day of the referendum it is clear that increasing numbers of businesses are deeply concerned about the impact of a yes vote on their future prosperity. Their views should be seen as a clear warning that significant parts of the Scottish economic base do not consider independence to be in their best interests or the best interests of Scotland.

4 The impact on Higher Education

44. Higher Education is an area of Government Responsibility which is highly devolved. However, there are specific areas—student fees and UK research collaboration—in which independence would have a significant impact on both an independent Scotland and the rest of the United Kingdom.

Access to Scottish higher education

45. In its White Paper, the Scottish Government stated that:

Access to higher education will be based on ability, not wealth; this Government will protect free tuition fees for Scottish students and continue to provide appropriate support for living costs.⁴⁷

However, the Scottish Government also stated under an independent Scotland, student from other parts of the United Kingdom would have to pay tuition fees:

To ensure Scottish students remain able to study at Scottish higher education institutions, this Government had little option but to allow Scottish institutions to set their own tuition fees for students from the rest of the UK at a rate no higher than the maximum annual tuition fee rate charged to such students by universities elsewhere in the UK.⁴⁸

46. The Scottish Government believed that this would be acceptable to the European Union because the policy was based on the “unique and exceptional position of Scotland in relation to other parts of the UK”.⁴⁹

47. Alastair Sim, Director of Universities Scotland, told us that his organisation had received legal advice on this policy proposal. That advice indicated that it might be possible to construct a case to allow students who are normally resident in Scotland to benefit from a particular fees or no-fees regime and for EU citizens resident elsewhere to be treated differently if an objective justification for that could be proved.⁵⁰ However, he went on to acknowledge that the last two Governments to try to make such an exemption—Austria and Belgium—were both unsuccessful.⁵¹

48. Clarity on the legality of this policy proposal is of significant importance because, according to Universities Scotland, fees charged to students from the rest of the UK, net of any bursary payments, yielded around £25m in additional income in the academic year 2012–13 rising to £62m in 2014–15.⁵² Alastair Sim concluded by stating that this was “an

47 [The Scottish Government: Scotland's Future: Education, Skills and Development](#)

48 [The Scottish Government: Scotland's Future: Education, Skills and Development](#)

49 [The Scottish Government: Scotland's Future: Education, Skills and Development](#)

50 Q34

51 Q35

52 <http://www.universities-scotland.ac.uk/uploads/ConstitutionPaper2012final.pdf>

extremely important issue”, and one where there needed to be “absolute clarity” before a choice on independence could be made.⁵³

49. According to press reports, Jan Figel, a former European Education Commissioner, said that if Scotland left the UK and became a member of the EU, students from England and Wales should receive “the same treatment” as Scottish students—who do not have to pay to study at universities north of the border. When asked if an independent Scotland could charge fees from students from England and Wales he said:

This would be illegal, this would be a breach of the treaty. If Scotland is an EU member state, from that day on it must apply the non-discriminatory rule which is linked to the free movement of persons.⁵⁴

50. This reading of the situation was reiterated by David Willetts, the then Higher Education Minister:

The view seems pretty clear that if Scotland were to be a separate state within the EU it would not be legal, because there is a very clear legal framework within the EU that you cannot discriminate against members of other member states. I quote the spokesman for the European Commissioner for Education, who said that, “Unequal treatment based on nationality [...] is regarded as discrimination, which is prohibited by Article 18 of the Treaty on the Functioning of the EU”.⁵⁵

51. When questioned on the Scottish Government’s view that it could prove an objective justification for such a policy, the Minister said that he “cannot see any reason why it would succeed”.⁵⁶

52. The current policy of charging tuition fees for non-domiciled UK students provides a significant source of income to Scottish universities. Despite the special circumstances highlighted by the Scottish Government it is highly doubtful that this policy will be compatible with EU Membership. The Scottish Government must therefore set out how it will replace the financial shortfall of not being able to levy tuition fees only on students from the rest of the United Kingdom.

Research funding

53. The second area of interest was the capacity of Scottish universities to continue to attract a sufficient level of funding for Universities. In its White Paper, the Scottish Government stated that it would:

Provide levels of public investment in university research that will enable our researchers and universities to remain internationally competitive.⁵⁷

53 Q34

54 <http://www.scotsman.com/news/education/scottish-independence-ruk-tuition-fees-illegal-1-3271703>

55 Q182

56 Q183

54. At present, public funding for university research in Scotland and across the UK is delivered by a dual support system comprising:

A block grant given by the funding council of each country (funded from devolved budgets) and

Competitively awarded grants from the UK-wide Research Councils (funded through the tax base).⁵⁸

55. These two sources make up the majority of university research income. In 2011–12 Scottish universities received a third of their research income from the Scottish Funding Council and won a further quarter in competitive funding from the Research Councils and National Academies. The Scottish Government proposes to retain these funding streams:

After independence this Government will seek to continue the current arrangements for a common research area and funding through established UK Research Councils, as we believe this would benefit both Scotland and the rest of the UK in supporting collaboration.⁵⁹

It went on to state that as a post-independence country, the Scottish Government would:

... negotiate with the Westminster Government a fair funding formula for Scotland's contribution based on population share but taking reasonable account of the fact that the amount of research funding received by Scottish institutions from the Research Councils may reflect higher or lower levels of funding.

Providing a direct contribution from the Scottish Government budget in this way would create more transparency and clearer accountability around our investment, enabling Scottish interests to be better and more consistently reflected in the identification of Research Council priorities.⁶⁰

56. The Institute of Physics highlighted to us the fact that Scotland, through UK research council funding, had an excellent level of access to international science facilities including the accelerators at CERN, the telescopes of the European Southern Observatory (ESO) and the space missions of the European Space Agency (ESA). It was concerned that access to these facilities would have to be renegotiated in the event of independence, which would include independent funding.⁶¹

57. The Royal Astronomical Society also highlighted the need for clarity over:

57 [The Scottish Government: Scotland's Future: Skills and Development](#)

58 [The Scottish Government: Scotland's Future: A Research Funding Policy and Landscape Right for Scotland](#)

59 [The Scottish Government: Scotland's Future: Skills and Development](#)

60 [The Scottish Government: Scotland's Future: Skills and Development](#)

61 EV61

... how the currently UK-wide research councils would agree to divide assets and grant funding between an independent Scotland and the other nations of the UK; and

The kind of cross-national agreements that would need to be put in place to maintain the health of research activity.⁶²

58. Universities Scotland in its evidence also noted that in the event of a yes vote, the Scottish Government would need to ensure the continued funding to retain the existing levels of:

The quality, scale and impact of university research and knowledge exchange; and

The maintenance and enhancement of universities' scope for collaborative teaching and research at Scottish, UK EU and international levels.⁶³

59. The Higher Education Minister highlighted the “excellent research institutions in Scotland” and the fact that it attracted 13% of UK Research Council Funding against a population of only 8%. He went on to question whether these institutions could continue to attract that level of investment as a separate country where collaboration would need to be underpinned by a more cost-based assessment of financial input:

If Scotland were to separate, of course one would hope for continuing research collaboration, but it would be between two separate countries. The basis on which we do research collaboration with France or Germany or the US, in general, is we pick up the costs incurred in our country, and the French or the Germans pick up the costs incurred in their countries. You have to come to some kind of overarching project, but that is how you allocate costs. That would be how it would have to work in this case. The rest of the UK would not be using the rest of the UK's research budget to pay for institutions in Scotland.⁶⁴

60. It is unclear whether the common research area is either practical or desirable in a post-independence United Kingdom. Even if it is, such an arrangement will need detailed negotiation to ensure that public funds from the UK are not being disproportionately diverted to a separate country. In any case, a complicated formula for the distribution of funds is very likely to undermine the economies of scale currently enjoyed by universities bidding within a single country.

62 Ev65

63 Ev71

64 Q184

5 Postal Services

Scottish Government White Paper

61. The Scottish Government has said that if Scotland votes for independence, Royal Mail would be “brought back into public ownership in Scotland” and that the existing service levels would be maintained, including the Universal Service Obligation. In addition, it states that greater priority would be given to “improving geographic coverage, particularly in remote rural areas”. According to the White Paper:

The EU requires postal deliveries and collections to be made five days per week in a member state. In an independent Scotland, there will be a service to match, as a minimum, the level of service provision inherited from the UK on independence, which is currently a six days per week service for mail.⁶⁵

62. The White Paper also addressed the question of ownership of Royal Mail. The ambition to retain the Royal Mail in public hands (the White Paper was written before Royal Mail was privatised) would be “considered in the light of circumstances at the point of independence”. It went on to state that:

Bringing the Royal Mail into public ownership will require negotiation with the UK on Scotland's share of the government stake, and establishing a new publicly-owned postal service in Scotland. Costs arising from this process will also require negotiations with Westminster, recognising that it proceeded with the sale of Royal Mail after the Scottish Government had made clear our intention to bring the mail service in an independent Scotland into public ownership.⁶⁶

63. The renationalisation of the Royal Mail may well be an attractive campaigning tool. However, the Scottish Government has to set out in detail the costs of renationalisation and how they would be met. Included in that assessment must be an assessment of Scotland’s proportion of the historic pension liabilities currently held by the UK Government. Without that detail, the policy of renationalisation is nothing more than an uncostered aspiration.

Sustainability of the Universal Postal Obligation

64. The EU minimum standard for the UPO is for a 5 day week delivery service. Should Scotland retain or regain membership of the EU it would have to meet that requirement. It should also be noted that the current service in the UK goes beyond that requirement.

65. The sustainability of meeting the UPO requirement was called into question by a number of our witnesses. In particular, it was noted that the rural nature of Scotland and

65 [The Scottish Government: Scotland's Future: Communications and Digital](http://www.snp.org/sites/default/files/document/file/scotlands_future.pdf)
http://www.snp.org/sites/default/files/document/file/scotlands_future.pdf

66 [The Scottish Government: Scotland's Future: Communications and Digital](http://www.snp.org/sites/default/files/document/file/scotlands_future.pdf)

the associated cost meant that the UPO would either need to be subsidised or that post would become substantially more expensive. In its evidence, Consumer Futures told us the Universal Service Obligation (USO) required Royal Mail, as the designated Universal Service Provider (USP), to provide “a mail delivery and collection service six days a week for letters, and five days a week for parcels, at a uniform affordable tariff across the UK”.⁶⁷ It went on to state that the USO was of particular value in Scotland due to the high number of rural and remote areas contained within it:

Almost one million people live in rural Scotland and 280,000 of those live in remote rural areas. Rural Scotland accounts for 98% of the land mass of Scotland. Scotland has approximately 96 inhabited Islands with a total population of around 100,000.⁶⁸

66. Consumer Futures also noted that almost half (45%) of the 3000 addresses exempt from the USO, for health and safety or difficulty of access reasons, were in Scotland; and that the three postcode areas in the UK exempt from Royal Mail’s quality of service standards are all in Scotland—HS (Outer Hebrides), KW (Kirkwall), and ZE (Lerwick).

67. Consumer Futures concluded that in Scotland there was “substantial evidence” of the difficulties faced by consumers in Scotland, due to “higher costs of delivery; no delivery to their location; longer delivery times; lack of transparency of delivery costs; and a lack of up-front information about delivery costs”.⁶⁹

68. The UK Government noted that:

The current UK postal network created economies of scale which helped deliver a comprehensive provision of services which help support Scottish rural or small businesses that use or rely on the Royal Mail’s provision of the universal postal service. It believed that should Scotland leave the UK “an independent Scottish state would have a higher proportion of rural areas than the UK as a whole and maintaining these services could result in higher costs being passed to consumers”.⁷⁰

69. The UK Government also pointed out that it was committed to a policy of maintaining “a national network of at least 11,500 Post Office branches” in which 99 per cent of the UK population were within 3 miles and 90 per cent within 1 mile of their nearest Post Office outlet. In respect of the rural population, the requirements were “95 per cent of the total rural population should be within 3 miles, and 95 per cent of the population in every postcode district should be within 6 miles of their nearest Post Office outlet”. Not all of these outlets were commercially viable and therefore the Government provided a subsidy:

This subsidy is paid to POL as a single annual sum (£210 million in 2012-13; £180 million in 2011-12; £150 million in 2010-11). There is currently no

67 Ev57

68 Ev58

69 Ev58

70 [HM Government: Scotland analysis: Business and microeconomic framework](#)

mechanism for allocating the subsidy down to individual non-commercial branches. In the last 5 years Scottish Government funding has been for two Post Office Diversification Schemes of around £1 million each.⁷¹

70. In evidence the Secretary of State confirmed that the costs to an independent Scotland would be “significantly costly” and that the result would be either an increase to the stamp price or a bigger state subsidy.⁷²

71. We do not believe that the Scottish Government has set out a coherent body of evidence to show how it would maintain and pay for the Universal Postal Service in an independent Scotland. The risk to Scotland is that provision of the Universal Postal Service will come at significant additional cost, either to the taxpayer or to the consumer.

Cross-border mail

72. A number of witnesses raised concerns about cross-border mail in the event of Scottish independence and highlighted the experience of the postal trade between Northern Ireland and the Republic of Ireland. In particular, any price differential between post going to and from and independent Scotland would run the risk of placing further cost pressures on Scotland. Both the CWU and Consumer Futures highlighted the need to address cross-border postal services between and independent Scotland and the rest of the United Kingdom. Consumer Futures stated that a new pricing mechanism would be necessary and set out the following potential pricing scenarios:

International rates could be charged. Royal Mail currently charges consumers EU rates for sending mail between Northern Ireland and the Republic of Ireland;

A standard rate for post between the current UK nations, or between some of the nations, could be charged. An Post, the Republic of Ireland USP, operates an ‘all-Ireland’ rate for mail which distinguishes Northern Ireland from the rest of the UK; or

A preferential rate for mail between Scotland and the rest of the UK could be negotiated and agreed. Preferential rates between neighbouring postal operators are commonly found in Europe.⁷³

73. The CWU stated that the Government of an independent Scotland “may seek to negotiate a position similar to that of the Isle of Man and the Channel Isles, where postage

71 [HM Government: Scotland analysis: Business and microeconomic framework](#)

72 Q188-9

73 Ev61

rates are the same as to and from UK destinations”.⁷⁴ However, it was concerned that there was a risk that “mail from Scotland to England would be classified as international post”.⁷⁵

74. Consumer Futures was also concerned with varying service standards between an independent Scotland and the rest of the United Kingdom. As an example, Consumer Focus set out the current position between Northern Ireland and the Republic of Ireland:

Our research found that over a quarter of all consumers surveyed (which included businesses) had taken post destined for the Republic of Ireland across the border to use An Post postal services, mainly because of the lower cost and perceived faster delivery time. Anecdotal evidence from sub-postmasters in border communities would suggest that this level has increased since this research was undertaken in 2009. Postal competitors are also emerging who are offering competitive tariffs for posting from Northern Ireland to the Republic of Ireland. Similar behaviours emerging in the event of Scottish independence could potentially impact upon the Scottish USP’s and/or Royal Mail’s mail volumes and consequently the sustainability of the USO.⁷⁶

75. The Scottish Government has not set out in any detail how it will mitigate against the financial pressures of cross border postage in the United Kingdom. Given that this will place further financial pressures on a Scottish Mail Service, the provision of this detail is a pressing matter.

74 <http://www.postcodes.royalmail.com/personal/help-and-support/i-need-advice-sending-mail-to-the-channel-islands-and-isle-of-Man>, Ev54

75 Ev54

76 Ev61

6 Conclusion

76. The Report highlights a number of areas of concern for a future independent Scotland. Each area is of economic significance to the Scottish economy. While the independence argument is an emotive one, decisions need to be made on the basis of the long-term prosperity of Scotland. It is clear to us that the Scottish Government has failed to make the persuasive argument that Scotland would be better off economically as a separate state. More worryingly, the Scottish Government has based many of its arguments on aspirations rather than reality. We believe that based on the strength of the evidence put before us, remaining in the Union is in the best economic interests of Scotland.

Conclusions and recommendations

Background

1. The forthcoming referendum on Scottish Independence has an impact not just on Scottish businesses and citizens but on all UK citizens and businesses. We thank those organisations which gave evidence to our Committee. It is however, regrettable that the Scottish Government failed to accept our invitation to give evidence or to engage fully with this inquiry. (Paragraph 3)

The impact on business

2. As we approach the day of the referendum it is clear that there is a deep concern about the impact of a yes vote on the future prosperity of Scotland. In particular, there is no certainty that breaking up the UK single market will have economic benefits. (Paragraph 8)

Scotland and the European Union

3. The Scottish Government's view that an independent Scotland would automatically be a member of the European Union has not been supported by substantive evidence. While we believe that Scotland would become a member of the European Union at some point in the future, it is a leap of faith to believe that this would either happen automatically or that re-admission would be a swift affair. There would be a period of intense and complex negotiation and the terms of those could be damaging to business and citizens. Furthermore, a protracted period of negotiation beyond the proposed 18 months would have a negative impact on business in Scotland as well as the other parts of the United Kingdom. There is a substantial risk that Scotland could be cut adrift in the short to medium term from its largest economic market. The impact of this on Scottish business would be significant. (Paragraph 18)
4. We recommend that both the UK Government and the Scottish Government publish all of their legal advice on the status of Scotland and the EU in the event of a yes vote so that Business can have a clear understanding of the consequences of a yes vote. Without this information it is not possible to make an informed decision on the economic merits of independence. (Paragraph 19)

Currency

5. All EU member states have their own central bank and this is a key fiscal structure which underpins the monetary relationship amongst members. We consider the European Union would require a separate Scotland and the Rest of the United Kingdom to have separate central banks. Therefore it is highly unlikely that the EU would permit a sterling zone. Furthermore, we do not believe that the use by a separate Scotland of a "shadow pound" would be acceptable to the EU. (Paragraph 27)
6. The Scottish Government's economic argument for independence has been based on a belief that Scotland would remain within a sterling zone. Given the views of the three main parties at Westminster, this is no longer a tenable position. A protracted

negotiation over Scotland's status within the EU also puts into doubt the possibility—in the short term—of adopting the Euro. As a matter of urgency, the Scottish Government must now spell out its plans for an alternative currency for an independent Scotland. (Paragraph 28)

Scottish Government White Paper: Financial stability and financial regulation

7. It is not in the interests of business to impose an additional layer of regulation, especially where there is no benefit to either business or the consumer. This will be the inevitable outcome of a vote for independence. The Scottish Government's ambition to deliver a regulatory framework which is aligned to that in the UK is an impractical approach, given the likely divergence in the two economies over time. A significant proportion of our businesses are highly integrated across the United Kingdom. To disaggregate them as a result of independence would have a negative impact on them and the services they provide. (Paragraph 42)
8. The benefits to business of a single UK Market should not be underestimated. As we approach the day of the referendum it is clear that increasing numbers of businesses are deeply concerned about the impact of a yes vote on their future prosperity. Their views should be seen as a clear warning that significant parts of the Scottish economic base do not consider independence to be in their best interests or the best interests of Scotland. (Paragraph 43)

Access to Scottish higher education

9. The current policy of charging tuition fees for non-domiciled UK students provides a significant source of income to Scottish universities. Despite the special circumstances highlighted by the Scottish Government it is highly doubtful that this policy will be compatible with EU Membership. The Scottish Government must therefore set out how it will replace the financial shortfall of not being able to levy tuition fees only on students from the rest of the United Kingdom. (Paragraph 52)

Research funding

10. It is unclear whether the common research area is either practical or desirable in a post-independence United Kingdom. Even if it is, such an arrangement will need detailed negotiation to ensure that public funds from the UK are not being disproportionately diverted to a separate country. In any case, a complicated formula for the distribution of funds is very likely to undermine the economies of scale currently enjoyed by universities bidding within a single country. (Paragraph 60)

Postal Services: Scottish Government White Paper

11. The renationalisation of the Royal Mail may well be an attractive campaigning tool. However, the Scottish Government has to set out in detail the costs of renationalisation and how they would be met. Included in that assessment must be an assessment of Scotland's proportion of the historic pension liabilities currently held by the UK Government. Without that detail, the policy of renationalisation is nothing more than an uncoded aspiration. (Paragraph 63)

Sustainability of the Universal Postal Obligation

12. We do not believe that the Scottish Government has set out a coherent body of evidence to show how it would maintain and pay for the Universal Postal Service in an independent Scotland. The risk to Scotland is that provision of the Universal Postal Service will come at significant additional cost, either to the taxpayer or to the consumer. (Paragraph 71)

Cross-border mail

13. The Scottish Government has not set out in any detail how it will mitigate against the financial pressures of cross border postage in the United Kingdom. Given that this will place further financial pressures on a Scottish Mail Service, the provision of this detail is a pressing matter. (Paragraph 75)

Conclusion

14. The Report highlights a number of areas of concern for a future independent Scotland. Each area is of economic significance to the Scottish economy. While the independence argument is an emotive one, decisions need to be made on the basis of the long-term prosperity of Scotland. It is clear to us that the Scottish Government has failed to make the persuasive argument that Scotland would be better off economically as a separate state. More worryingly, the Scottish Government has based many of its arguments on aspirations rather than reality. We believe that based on the strength of the evidence put before us, remaining in the Union is in the best economic interests of Scotland. (Paragraph 76)

Annex

Mr Brian Binley and Mr Mike Crockart, Members of the Committee, made the following statement in support of the Report:

Unfortunately I am unable to attend the meeting to agree formally the Committee's Report on the Implications of Scottish Independence for business; higher education and research; and postal services. However, I would like to declare my support for the Report.

Robin Walker, Member of the Committee, made the following statement in support of the Report:

Unfortunately I was unable to attend the final meeting to agree formally the Committee's Report on the Implications of Scottish Independence for business; higher education and research; and postal services. However, having taken part in the evidence sessions, I would like to declare my support for the Report.

Formal Minutes

Tuesday 5 August 2014

Members present:

Mr Adrian Bailey, in the Chair

Mr William Bain
Katy Clark

Ann McKechin

Draft Report (*The Implications for Scottish Independence on Business; Higher Education and Research; and Postal Services*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Annex agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[Adjourned till Tuesday 2 September at 10.00 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/bis.

Monday 17 June 2013

Question number

Iain McMillan, Director, CBI Scotland, **Gordon MacIntyre-Kemp**, Founder and Facilitator, Business for Scotland, and **Jo Armstrong**, Independent Economic Researcher, Centre for Public Policy for Regions (CPPR), University of Glasgow Q1-32

Robin Parker, President, NUS Scotland, **Alastair Sim**, Director, Universities Scotland and **Mary Senior**, Scottish Official, University and College Union Scotland Q33-58

Trisha McAuley, Director for Scotland, Consumer Futures, **Robert Hammond**, Director of Postal Policy and Regulation, Consumer Futures, **John Brown**, Scottish Regional Officer, Communications Workers Union, **Paul Hook**, Head of Policy and Communications, National Federation of Subpostmasters, **Jonathan Millidge**, Company Secretary, Royal Mail and **Mike Granville**, Head of Stakeholder Relations, Post Office Limited Q59-97

Tuesday 18 June 2013

David Watt, Executive Director, Institute of Directors, Scotland and **Professor David Bell**, Professor of Economics, University of Stirling Q98-119

James Barbour, Director, Technical Policy, Institute of Chartered Accountants of Scotland Q120-150

Wednesday 5 February 2014

Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills, and **Rt Hon David Willetts MP**, Minister of State for Universities and Science, Department for Business, Innovation and Skills Q151-192

Published written evidence

1	UK Government	Ev 50
2	John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, Scottish Government	Ev 50
3	Communications Workers Union	Ev 52
4	Consumer Futures	Ev 57
5	Institute of Physics in Scotland	Ev 61
6	OFCOM	Ev 63
7	Royal Astronomical Society	Ev 65
8	Royal Mail Group	Ev 66
9	Scotch Whisky Association	Ev 69
10	Universities Scotland	Ev 71
11	University and College Union Scotland	Ev 71
12	Wellcome Trust	Ev 73

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/bis.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

First Report	Royal Mail Privatisation	HC 539-I/II
Second Report/First Joint Report	Scrutiny of the Government's UK Strategic Export Controls Annual Report 2012, the Government's Quarterly Reports from October 2012 to September 2013, and the Government's policies on arms exports and international arms control issues	HC 186
Third Report	Student Loans	HC 558
Fourth Report	The Implications for Scottish Independence on Business; Higher Education and Research; and Postal Services	HC 504

Session 2013–14

First Report	Women in the Workplace	HC 342-I/II/III(<i>Cm 8701</i>)
Second Report/First Joint Report	Scrutiny of Arms Exports and Arms Control (2013): Scrutiny of the Government's UK Strategic Export Controls Annual Report 2011 published in July 2012, the Government's Quarterly Reports from October 2011 to September 2012, and the Government's policies on arms exports and international arms control issues	HC 205
Third Report	The Kay Review of UK Equity Markets and Long-term Decision Making	HC 603(HC 762)
Fourth Report	Consultation on a Statutory Code for Pub Companies	HC 314
Fifth Report	Open Access	HC 99-I/II(HC 833)
Sixth Report	Draft Consumer Rights Bill	HC 697-I/II/III
Seventh Report	Payday Loans	HC 789

Session 2012–13

First Report	The Hargreaves Review of Intellectual Property: Where Next?	HC 367-I/II(HC 579)
Second Report/First Joint Report	Scrutiny of Arms Export Controls (2012): UK Strategic Export Controls Annual Report 2010, Quarterly Reports for 2010 and January to September 2011, the Government's review of arms exports to the Middle East and North Africa, and wider arms control issues	HC 419
Third Report	Post Office Network Transformation	HC 84(HC 678)

Fourth Report	Overseas Students and Net Migration	HC 425(<i>Cm 8557</i>)
Fifth Report	Apprenticeships	HC-I/II/III(HC 899)
Sixth Report	The Insolvency Service	HC 675 (HC 1115)
Seventh Report	Too Little, Too Late: Committee's observations on the Government Response to the Report on Overseas Students and Net Migration	HC 1015(<i>Cm 8622</i>)
Eighth Report	Pre-appointment hearing of the Government's preferred candidate for the post of Groceries Code Adjudicator	HC 1011
Ninth Report	Local Enterprise Partnerships	HC 598
Session 2010–12		
First Report	The New Local Enterprise Partnerships: An Initial Assessment	HC 434 (HC 809)
Second Report	Sheffield Forgemasters	HC 484 (HC 843)
Third Report	Government Assistance to Industry	HC 561
Fourth Report / First Joint Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010,licensing policy and review of export control legislation	HC 686
Fifth Report	Government Assistance to Industry: Government Response to the Committee's Third Report of Session 2010–11	HC 1038
Sixth Report	Is Kraft working for Cadbury?	HC 871
Seventh Report	Rebalancing the Economy: Trade and Investment	HC 735 (HC 1545)
Eighth Report	Trade and Investment: China	HC 1421 (HC 1568)
Ninth Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code	HC 1224-I
Tenth Report	Pub Companies	HC 1369-I/II (<i>Cm 8222</i>)
Eleventh Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code: Government Response to the Committee's Ninth Report of Session 2010-12	HC 1546
Twelfth Report	Government reform of Higher Education	HC 885-I/II/III (HC 286)
Thirteenth Report	Pre-Appointment Hearing: Appointment of Director of the Office for Fair Access	HC 1811
Fourteenth Report	Debt Management	HC 1649 (HC 301)
Fifteenth Report	Stamp Prices	HC 1841-I/II

Oral evidence

Taken before the Business, Innovation and Skills Committee

on Monday 17 June 2013

Members present:

Mr Adrian Bailey (Chair)

Paul Blomfield
Katy Clark
Mike Crockart

Caroline Dinenage
Ann McKechin
Mr Robin Walker

Examination of Witnesses

Witnesses: **Iain McMillan**, Director, CBI Scotland, **Gordon MacIntyre-Kemp**, Founder and Facilitator, Business for Scotland, and **Jo Armstrong**, Independent Economic Researcher, Centre for Public Policy for Regions (CPPR), University of Glasgow, gave evidence.

Q1 Chair: Good morning and thank you for agreeing to give evidence to the Committee. As you can see, we are one witness short at the moment, but I understand she is coming and I do not intend to delay proceedings. Just to repeat, thank you for agreeing to speak to us. Could I just mention that obviously there may be one panellist better qualified to speak in answer to one question rather than the other. Do not feel that everyone has to answer every question if you really have nothing much to add. We shall not be concerned if you feel there is nothing more to add. Equally, if you do feel there is something to add or subtract to what any other member of the panel has said, please feel free to do so. Before we open the questions, could I just ask you to introduce yourselves? Obviously, we know from your labels who you are, but for voice transcription purposes it would be helpful if you could do so. I will start with you, Gordon.

Gordon MacIntyre-Kemp: Gordon MacIntyre-Kemp. I am the Managing Director of the new business network Business for Scotland. It is a business network for pro-independence business people. We launched on the 14th of last month and we already have over 500 members. To join Business for Scotland, you have to sign a declaration that says that you wholeheartedly agree that independence will be a good thing for Scottish business and the economy overall. We are a non-party political organisation and our board has members who represent all political parties and views but mostly none. The only thing that brings us all together is the fact that we want to make sure people get the facts about the opportunities for business that independence brings.

Jo Armstrong: Good morning, I am Jo Armstrong. I use the word independent economist. I am the economist unaligned to any political party or to any of the possible options facing the electorate at the moment. I write under the banner of the Centre for Public Policy for the Regions and I have a bias towards financial services regulation and economic regulation.

Iain McMillan: Good morning to you. I am Iain McMillan. I am the Director of CBI Scotland. Now, I think most of you will have heard of the CBI. We are one organisation. We are headquartered in London

with offices throughout the UK, the principal larger ones being in Scotland, Wales and Northern Ireland because of the devolved jurisdictions. I am part of the CBI line management structure and I am the professional head of the organisation for Scotland. Our role is business advocacy to make sure that the Governments, legislators and others understand the business position and the reasons for the business positions, principally in the development of public policy.

Q2 Chair: Thanks very much. Indeed, my opening question is actually a quote from your boss, John Cridland, giving evidence to the House of Lords. John Cridland, who, of course, is Director General of the CBI, said, "Uncertainty is the biggest killer for investment". In your opinion, what are the key areas of uncertainty that need to be clarified in advance of the referendum? I will start with Iain, although I am sure the other speakers will have a view on this as well.

Iain McMillan: Sure, yes. I would like to do that. I am going to mention seven principal ones, not necessarily in any particular order of importance because they are all important and this is not exhaustive because some questions lead to other questions. Indeed, we have put over 200 questions to the Scottish Government asking them to clarify matters around the independence proposition.

The first one I would mention is membership of the European Union. That is quite a controversial question at the moment where opinions differ. Our view in the CBI is that if Scotland were to be independent then we would like to see the newly independent country be in the European Union, but there are issues around whether that would be so, on what terms and when. For example, the UK Government produced a paper some months ago that called into question the seamless way into Europe that the Scottish Government at that time appeared to believe was possible, that Scotland would be a new state, would need to apply to the European Union for membership, would need to in all probability accept all the full conditions of membership without exceptions, and that position seems to be supported by the President of the European Commission and several of the Foreign

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

Ministers of member states. The President of the European Commission is also on the public record as saying that were Scotland, or an independent Scotland, to apply for membership of the European Union, which it would need to do, it could only do that after statehood. In other words, it could not negotiate its entry to the European Union concurrently with secession negotiations with the UK Government and so it would have to be consecutive rather than in parallel. So, a great deal of uncertainty around EU membership.

There is then the currency that an independent Scotland would adopt. Our view is that were Scotland to be independent we would want to keep the pound sterling. That is the view of the Scottish Government, but the Chancellor of the Exchequer and the Treasury has placed a question mark over that to say that it would require the remainder of the UK to agree to, for example, a sterling area and even if there was agreement then such an arrangement might not endure if the economy of the separate Scotland were to diverge significantly from the rest of the UK. Were that to happen, then Scotland would have several choices there. It could unilaterally decide to use the pound sterling but not any sterling area. It could apply to join the euro or it could adopt its own currency. None of the three offer particularly attractive choices and two of them would introduce exchange rate costs and exchange rate risks into doing business with the rest of the UK and other parts of Europe were it not to be the euro.

Next up is the cost of credit. An independent Scotland-based Government would not have a track record of borrowing on the bond markets. It would not have a track record of fulfilling its obligations and, therefore, it could well be that the bond markets would attach a premium to the interest rate payable by an independent Scotland to offset that risk. Of course, that could have an impact on a currency if Scotland was to use a different currency than the pound sterling. Indeed, there is quite a lot of cascading knock-on effects there, which I would be happy to explore with you as we go forward.

Then there are the public finances. The only clue that we have to this really are the Government expenditure and revenue accounts, which show that at the last numbers that were struck, without oil and gas revenues included, Scotland would have a deficit of some £18 billion, which is over 14% of gross domestic product, compared to the UK's deficit, which is just under 8% of gross domestic product. Include 90% of oil and gas revenues, which is a figure roughly that the Scottish Government believe that they could negotiate, and that deficit falls to 5% of gross domestic product.

Now, there are some issues around that because oil revenues are volatile. For example, in 2011/2012 they delivered £10.6 billion of revenue to the UK Government. Two years earlier, they delivered only £5.9 billion in revenue. There is also the long-term trend. In the short term, I think that the Scottish Government are probably right that the oil and gas output could well rise from 1.5 million barrels equivalent a day back up to 2 million, but that is a long way down from the peak of 4.5 million barrels

of oil and gas in 1999. Therefore, given we are, as the Economist said in 2006, "into the long goodbye", it certainly appears to us that the macroeconomic case for independence is highly dependent on oil and gas revenues, which are volatile and in the long term reducing.

Then there are the full costs of statehood. What would these be to the Scottish Government? What would they be to business? Because we would see the great departments of state having to be duplicated north of the border; the regulators that report and are responsible to the departments of state and through them to Parliament. There would be much duplication there.

Then on to my penultimate uncertainty, which is the impact on key industries; for example, financial services. Although it varies from sector to sector a bit, by and large our financial services sector has 90% of its clients outside Scotland, mostly in England. Therefore, what would happen in terms of regulation, what would happen in terms of currency and so on and so forth following independence?

Then, lastly, over time there would inevitably be a divergence of all the laws and the rules and the regulations between the two jurisdictions. Although, because of our civil and criminal justice system and devolution and some of the things that carried on after the Act of Union there is already some divergence there. Business by and large lives with that and it is not a problem, but there would be a great deal more divergence, in our view, following independence as Parliament quite rightly reacted to different pressures north of the border to those south of the border.

That is seven, as I said. It is not exhaustive and I would be very happy to expand on some of that during your questions.

Q3 Chair: Thanks very much. I think that was a fairly comprehensive introduction to the issues. Now, I am sure that both the other panellists could probably participate and we could take all morning on the issues that you have raised. I would just caution panellists. I think we have an hour for this session and we have at least a dozen questions altogether, so if you could keep your points in response as brief as possible I would be grateful. I would emphasise that if you feel that you have not had the opportunity to say everything that you would want to at this session, feel free to submit further written evidence or if you wish to contradict a point that was made but you did not get a chance to during the session, equally feel free to write in with supplementary written evidence. We will be very happy to receive it and it has equal weight to any verbal contributions that are made at this session. First of all, would anybody like to pick up in response to those opening remarks?

Jo Armstrong: Yes, I do not have seven, I have three, and they are definitely shorter than Iain's seven points there. One is businesses have to deal with and do deal with uncertainty, so I think it is an important issue that says uncertainty is part of business.

The second one is around we are talking about in the main short term versus long-term issues. I think the short-term transition, short-term uncertainties, are significant purely dependent on, in effect, the

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

negotiations in large part, but there is clearly a belief that the longer term outcome would be better as a consequence of that very painful potential short-term transition phase. What is not clear to me is how long that is likely to be. What are the costs and what is the net present value of the overall outlook that you might be expecting to achieve as a consequence of going down that route?

The third one is the status quo is not lacking uncertainty either. Clearly, the issue around EU membership is one that is quite significant. As Iain pointed out, we are part of the European Union but we may or may not be as a consequence of what is currently happening in Westminster. I think the status quo uncertainty is maybe not as large but it is definitely significant and cannot be ignored.

Q4 Chair: Gordon, I suspect you may want to add to all this.

Gordon MacIntyre-Kemp: Yes, I will try not to take as long as Iain did but I want to counter quite a few of those.

First of all, we have just had a survey done by Ernst & Young, which says that Scotland has just had a record year of inward investment. It is a significant increase year on year—76 inward investment projects. I think that the idea of uncertainty existing because of the independence referendum has been turned on its head completely by that. What actually has happened—and this is what the report itself said—was that we will actually be having quite the opposite effect. Business people that I speak to tell me that the uncertainty they are worried about is whether or not—and this goes to Jo's point—after the next UK-wide general election the in/out referendum on Europe will actually take Scottish businesses out of Europe regardless of how Scotland votes because of the number of people in London and the South East that will vote and possibly sway the referendum. If businesses are afraid of anything, it is the fact that there could be an exit from Europe as a result of policies that we in Scotland would very probably not agree with in the referendum. There have been polls that have said that Scottish people, as a whole, are pro remaining in Europe, whereas there have been polls that have said that from London and the South East in particular there is a potential to exit.

Going back to inward investment, recent research has proven that newly independent nations have had significant increases in inward investment immediately after independence. One of the reasons for this—and I have spent some time working at Scottish Enterprise on inward investment projects—is really about the brand that the country has. It is about putting yourself front of mind. Countries like Estonia, Czech Republic, Latvia, et cetera, have all had increases in inward investment. The fact that Scotland is in the press right now all over the world, front of mind, is making people look at us and actually consider us as an inward investment location. Several businesses have said whatever happens they are quite calm about the prospect of an independent Scotland having sensible business-friendly strategies.

The EU referendum is one area of constitutional uncertainty that I think is potentially going to be

damaging in the future. The other one is that there are reports, for instance, by the Liberal Democrats and also by a Westminster committee that have said that if there were to be a no vote, there would have to be a UK-wide referendum on further powers for Scotland and the regions. Now, that again means that if we vote no we have a further two, three, four years of constitutional uncertainty. So if anyone argues there is constitutional uncertainty, then there clearly, from my point of view, seems to be more with a no vote than there is with a yes vote.

Very quickly on currency, as a former economist I am very fond of getting into the numbers. They compared the deficits as a percentage of GDP in 2011 using an average of Eurostat, International Monetary Fund and CIA projections and found that out of 170 sovereign states the UK debt level as a percentage of GDP were 150th out of 170. But the really bad news is that when you compare the deficit we found that we were 188th out of 192 nations. What that actually means is that if you took the trade that was done between Scotland and England—and by the way it is a two-way trade. I would imagine, and I would have to check up on this, but I think that Scotland is a significant export market for businesses from the rest of the UK, in fact, and were that to be a fact there will not be any borders, we will be in Europe, and, therefore, it only makes sense to maintain the same currency so that it does not affect the balance of trade deficit, which is a major problem because London, and the South East in particular, is overheated and imports a great deal and we as a whole do not manufacture enough as the UK as a nation but Scotland obviously does significantly better there.

Iain was right to say that 5% of GDP is the deficit, which is a couple of per cent lower than the UK as a whole. So Scotland's economy is stronger. The whole argument really confuses me when people say, "But if you take oil out of the equation". Well, let us take London tourism out of the equation then. Oil is part of Scotland's economy. It will be on-going. The UK oil and gas sales, at least 40 to 60 years of profitable extraction left there. That is enough time to put Scotland's economy back on its feet and undo the damage that has been done to it by London-centred Westminster policies over the last few generations, which have de-industrialised Scotland significantly.

Finally, one last thing on volatility. When we had devolution, the oil price was \$10 per barrel. Last year the average was \$110 per barrel. It has been extremely volatile but in a massively upwards direction. Jackpots tend to be volatile but nobody gives back the lottery jackpots because the next week it is a lot less than what they have just won. I think that the way to deal with volatility is to have a sovereign oil fund, just as Norway have done, just as almost every nation in the entire world that has oil as a significant part of their GDP has done, except the UK. I believe that the fact that the UK Government as a whole has not dealt with volatility does not mean that they should actually be able to use it as an argument for voting no right now.

Chair: There are a number of issues I think I am tempted to take up. I am conscious of the time. I should emphasise that as a Committee we may well write to you with further questions arising from

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

evidence that you have given us and we would be grateful for a reply. I am going to give you a quick supplementary, Ann, because you did ask, and then I want to bring Paul in. To a certain extent, Paul, the questions have been covered but you may want to—

Paul Blomfield: I will ask them.

Chair: Yes, but I will just bring in Ann quickly.

Q5 Ann McKechin: Could I just follow up the point that you made, Gordon, about creating an oil fund that has been regularly mentioned. Some analysts and economists—and I listened to a number of them last week—were stating that because Scotland is likely now to inherit a pro rata share of Government debt it is not at a very high level. They would suggest that the first thing that an independent country should do is actually pay off the debt rather than create an oil fund. Would you concur with that?

Gordon MacIntyre-Kemp: You have various options. One thing I would like to point out is that the long-term debt is secured at a 2% to 3% interest rate, maybe slightly more, slightly less, but within that sort of area. The Norwegian oil fund last year returned 13%, returned a massive profit. You are balancing up a couple of per cent versus significant profits in the oil fund. It has been proven that everywhere that has had an oil fund has actually—

Q6 Ann McKechin: Apparently, it took quite some while to gather that amount because that oil fund, as I understand it, has been in existence for many decades, whereas we would be starting from scratch. With such a high debt level, many people have suggested that economically, with credit possibly being at a higher cost, the incentive recommended by the markets is to pay down the debt.

Gordon MacIntyre-Kemp: No, you are making an assumption that the debt would be at a higher cost as the UK has lost its triple A rating. I personally see no reason why Scotland would not actually be able to attain a triple A rating, whether the assets would have the 26% of the EU's renewables, oil and gas, and so on. As far as I am concerned there are also significant savings from independence. Take, for instance, that an even larger conventional armed forces without nuclear weapons could cost £1.5 billion a year. We talk about the deficit. Last year, if you look at the Revenue Scotland report, the GERS report, you will see that £4.1 billion came straight out of—

Ann McKechin: I am talking about debt rather than deficit, just to clarify.

Gordon MacIntyre-Kemp: The deficit adds to the debt, doesn't it? Every year the debt increases if you run a deficit. So £4.1 billion of that deficit was actually on interest payments from the UK's debt. I would definitely invest in an oil fund and use other savings to pay back the share of the debt that we take on.

Q7 Paul Blomfield: If I could just follow up on the question of membership of the EU, which has firmly been central to a number of comments that you have made. I would agree that membership of the EU is important for an independent Scotland. Do you think, therefore, that it is important to have absolute clarity

on the issue of whether an independent Scotland has to reapply for membership of the EU? The question is whether it is important to have clarity.

Iain McMillan: I think we would like as much clarity as we can get but opinion seems to be divided on this. I think that one does need to look at the opinion that has been given by the President of the European Commission. That is a pretty high level of seniority in the European institutions. He has made it clear that Scotland would be a new state, the remaining part of the UK would be the continuing state, and that Scotland would need to apply. That is controversial. Others have said no, that is not the case, although I do understand that the Deputy First Minister of Scotland fairly recently did concede that negotiations would be required. I expect these negotiations would require unanimity and the 27 countries of the EU to put these negotiated points into effect. There is a lot of uncertainty there. It is not something we like. It is not something that we would like to go forward with, but it does look for now as if it is going to be two sets of opinions.

Q8 Paul Blomfield: Are there any other views?

Gordon MacIntyre-Kemp: Yes, I would just like to point out that the European Union will not give an official response on this to the Scottish Government because the Scottish Government is not, in effect, the member; the UK Government is. The UK Government could actually ask, could write to the European Union and ask for an official response, but they have refused to do so. They have, in fact, been criticised by the House of Lords for doing so as well. This is a case of someone, an actual organisation, that does not want Scotland to become—

Paul Blomfield: For not doing so.

Gordon MacIntyre-Kemp: For not doing so, yes. This is a case of an organisation that does not want Scotland to become independent refusing to seek the clarity that they themselves are claiming does not exist because they will not renegotiate.

Paul Blomfield: I think—

Gordon MacIntyre-Kemp: I am sorry but if you let me finish here, basically the only way to get clarity is for the UK Government as the member state to seek clarity. I would actually wonder why they have not. Is it because they are afraid they might get the sort of clarity they do not want to receive?

Q9 Paul Blomfield: Can I just ask you, Gordon, because I think that the President of the European Commission has made the position fairly clear, but I understand that the Scottish Government has taken legal advice. Do you think it would be helpful if that legal advice was made public?

Gordon MacIntyre-Kemp: I am actually not here to speak for the Scottish Government.

Paul Blomfield: No, I am asking for what you think.

Gordon MacIntyre-Kemp: In terms of the President of the European Commission, I do not believe he is in a position to actually make a decision.

Paul Blomfield: I was asking what you think about the Scottish Government making its legal advice public.

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

Gordon MacIntyre-Kemp: I know, but you put two points in the question so if you will let me just answer one and then the other. The President of the European Commission is a politician who has moved on to a new role. He has made a statement, as it has been said by Iain himself; others have contradicted that statement. I have looked at the evidence myself personally to see who I believe, and I find the Scottish Government's position that we will be able to renegotiate terms from an existing membership from within the European Union—which is what we have always said and we have never changed that—to be compelling.

In terms of what the Scottish Government intends to do, I think that in October this year they are writing a White Paper, which will set out the definition of the type of independence that people are going to be asked to vote for. Two things will come out of that. One is a great deal of clarity, and I think it is right we have taken the time to do that properly. The second thing is that separation will not be on the ballot paper. A mature, interconnected and interdependent independence within the EU is what we are going to be asking people to vote for and I am sure that the legal advice will cover that then.

Q10 Paul Blomfield: Can I just come back briefly, Chair? Let us assume for a moment that Scotland does have to reapply for membership of the European Union. A prerequisite would be joining the euro. In those circumstances, what view would you have on the impact that would have on the Scottish economy?

Iain McMillan: Well, the first thing is that that would introduce an exchange rate differential between Scotland and the rest of the UK because the rest of the UK would remain outside the euro. Therefore, cross-border trade, cross-border business between Scotland and England would become subject to costs of exchange and it would become subject to exchange rate risk. Now, okay, there is hedging, but hedging comes at a cost. That would be the most immediate and the most impact, I would suggest, that would happen on the island of Great Britain.

Jo Armstrong: Yes, it would certainly add transactions cost to businesses in Scotland whose major trading partners are in England. It would add transactions costs; there is no doubt about that. It would depend on the terms of trade at entry, and that again would actually be negotiable. But it would certainly add to transactions costs so potentially in the short term reduce growth.

Gordon MacIntyre-Kemp: It is a false question, the assumption—you say let us assume we would have to join; we would not have to join. In order to actually adopt the euro you have to join the ERM mechanism for two years. Now, to do that you have to commit your own currency to that. We do not have our own currency right now so we would have to first launch our own currency and then have a referendum deciding to join and then we would have to commit it for two years and meet all the criteria, and even then it is optional. You can decide whether you want to do it or not. I would not recommend joining the euro. I have, since 2005, recommended an independent Scotland keeping the pound, and that is exactly what

we will do. That will be beneficial for both parties. So I think it is a loaded question.

Also, the idea that the EU would force us into various things is quite interesting because the UK, because of its size, is often said to have these four big opt-outs. Well, Denmark, which is a smaller nation than Scotland, has five opt-outs. We can actually look at the likelihood of that happening. When you make an assumption you have to decide is it a likely assumption, and it is a completely and utterly impossible assumption that we would be forced into either, in my opinion.

Paul Blomfield: I think it is a very reasonable assumption and very reasonable question, but I will leave it there.

Q11 Mike Crockart: It is a question really to you, Gordon, on your website you have argued that independence would act as a catalyst for Scottish people to become more entrepreneurial, confident, successful, ambitious and international in their outlook, which is quite a big claim. What evidence do you have to support that assertion?

Gordon MacIntyre-Kemp: Well, basically it is not a claim from myself; it is a claim that all 500 members have actually signed and agreed to. Scotland deciding to vote yes, which I believe it will do, is making a significant statement of confidence. It is one of the issues about our country that for several generations we have witnessed a deindustrialisation; we have witnessed an eroding of economic opportunity; we have seen massive economic migration from Scotland to London and the South East. In my own family, I am the first generation to actually come back to Scotland; there are a lot of them in Hexham and Northumberland.

If you actually look at the publicity that Scotland is having right now, the inward investment that that has, according to Ernst & Young, started to generate, and actually consider the publicity we will get from the opening of the polls to the actual announcement of the result, an English advertising agency said that if you were to buy that as advertising time on international TV it would be between £800 million and £1 billion worth of TV advertising. I think if we have £1 billion to spend as a nation on building our brand, what do we want to see? Do we want to say we are a confident, entrepreneurial, international, outward-looking nation that wants to talk to the rest of the world on their own terms? Or do we want to spend all that money sending out a message that we are no more worthy of nationhood than Shropshire? That is no insult to Shropshire. That is what Tony Benn said, Scotland had no more right to nationhood than Shropshire.

Basically, I think that one of the most single biggest cultural jumps that Scotland could ever take is a statement of intent and of confidence and I think it will have a major impact on the confidence of the nation and, of course, business and entrepreneurship as well.

Q12 Mike Crockart: All those things are now already happening. Yes, we are using the benefits of the publicity, but the inward investment is already happening. Talking particularly about

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

entrepreneurship, there are lots of things happening in Scotland right now about business start-ups. We have a higher business start-up. That is happening under the present system, so what are the things that you are arguing are holding us back? I have an Entrepreneurial Spark set up in my constituency. Business England Network seems to be very healthy in Scotland. There do not seem to be the barriers that you think are there that independence will help particularly.

Gordon MacIntyre-Kemp: Traditionally, Start-up rates in Scotland are about five years and it was something we struggled with and something that Scottish Enterprise and the Scottish Government since devolution have put an awful lot of effort into. I think we are seeing the results of their efforts there. We have struggled for generations with start-ups and we are getting an awful lot of self-employed people nowadays, which is contributing to the start-up rate. What we really need to see is a lot of fast-growth companies, those that can actually accelerate away and start employing a great deal of people. Something that I hear on a regular basis is the lack of headquarters of businesses in Scotland, the takeovers but also the lack of inward investments in terms of European headquarters, and so on, because fast-growth start-ups tend to spin out of headquarters. The skills of marketing and finance and operational management, these sorts of things, there is not enough of those people starting businesses in Scotland or contributing to start-up teams. I think that the corporation tax plan, which we used as part of a suite of products to increase inward investment and European headquarters, and so on, into Scotland, will help create a situation where the opportunity to create a better type of start-up will happen. But there has been some increase. I am pleased to hear you say we have been using the publicity to good effect, but I think that there is still a great deal of room for improvement.

Q13 Mike Crockart: I agree, but I think what you have outlined is that there are a lot of major steps forward caused by devolution, so that would be the first step. We are running out of time. If I can turn to a question around the banking system but more as to how it relates to small businesses, and it is more really to the whole panel. In Scotland the banking system is much more dominated by really two players, HBOS and RBS. How do you think that dominance would affect bank lending to business in an independent Scotland?

Jo Armstrong: I think, on the issue of bank lending, at the moment we have a problem of bank lending and small businesses are saying they cannot get access to finance almost at any price let alone at an affordable price. Again, we are starting from a position that is difficult. If we are talking about two large banks effectively being the only two routes to finance for small businesses in Scotland, then we get worried about potential anti-competitive pressures that might bring so we have to look to regulation to make sure that did not dominate. But if we are talking about, again, at the local levels and talk about regional banks as a route to restructuring the banking sector to make it more business friendly, more business focused, we

start to ask the question: if you have regional banks in regions within the UK, what is the difference that that might create in terms of monopoly power to what might be within Scotland at the Scottish level if it had only two banks, two regional banks, as opposed to one regional bank, for example, in the northeast or one regional bank in the southwest? Again, it is about understanding how the regulatory framework will work to make sure that monopolistic power might not be abused.

Q14 Mike Crockart: There will in turn be a greater need for Scotland to regulate?

Jo Armstrong: I think there is a need across the UK to make sure that small business—I think small businesses, as someone who worked in the banking sector, do not find it easy to hop around and look for competitive pricing. They look for a banking relationship. That banking relationship, once gained, will have a potential for them to look for the cheapest price. It is about a suite of products that small businesses need access to. I think that is about how the regulation framework works in the best interests of businesses, and I do not think it is working at the moment at all. Potentially, we are going to have an independent Scotland with two large non-local banks.

Iain McMillan: I think I would endorse a great deal of what Jo has said there. We are in a very difficult place. The UK banks have had to shrink their balance sheets. The regulators have required them to have more tier 1 capital. Under Basel II that will increase yet again. That is less money that they have to lend when it is in that sort of capital framework.

Over time, regional banks, yes, I think that would help; anything that improves competition. I think that would help but again there are risks ahead here. One risk is currency. If Scotland becomes independent, adopts the pound sterling—I really do have to add here Scotland cannot demand its way into a sterling area. It needs the consent of the UK Government and Mr Osborne has made it clear that that consent is not certain and that even if there is consent then it may not endure. What would happen if Scotland fell out of the pound sterling area, you would have all these businesses with liabilities in pounds perhaps having to repay them in the Scottish groat or whatever the currency that might be adopted here. The same is true for the fund management business. That would stray into that. The costs and risks around the currency question are considerable and it could affect small businesses just as much as it could affect large businesses.

Gordon MacIntyre-Kemp: Can I just answer? I need to come in on that. First of all, we had a global banking crisis that was largely created by the lack of regulation by governments and one of those two leaders of those governments around the world that was—

Mike Crockart: Alex Salmond.

Gordon MacIntyre-Kemp: No, not at all. He had nothing to do with the deregulation of the Scottish banks.

Mike Crockart: He was a champion for it.

Gordon MacIntyre-Kemp: In what respect? He actually was not the person who knighted the leader

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

of the bank and then the leader of the No Campaign actually complained when his knighthood was stripped. I am not here to defend or to talk about any particular politician. I am talking about the system of government that we operate under.

As I was saying, I go back to my point, which is that we have had a global banking failure caused by a failure of governments. One of the two leaders of that deregulation was the UK Westminster Government, and the way to respond to a global banking crisis is to have global banking regulation in place. A large amount of the regulation, about 70%, will come from the EU in the not too distant future. One of the key reasons for leaving the EU that a Conservative politician that I noticed on TV a while ago said was he wanted to make sure we do not get put under the thumb of those draconian EU banking regulations. Now, as far as I am concerned, that is actually quite a worrying thing. I think that that is something that we need to put on record as well.

In terms of the actual pounds sterling, sterling is owned by the people of Great Britain as an asset. We in Scotland have a percentage population share of that. We are not adopting it. We already have it. We will be keeping it and I believe that after a yes vote there will be no political posturing on that because, as I have said before about the size of the deficits, it would actually be extremely silly for the rest of the UK not to want to keep Scotland's exports within sterling in order to strengthen the sterling zone. Political posturing aside, coming at it from an economist point of view, I would have to say I would expect that deal to be done fairly quickly and sensibly because after the referendum is done most politicians will start to behave in a sensible way.

Chair: Interesting point. We will not pursue that particular line.

Q15 Katy Clark: Iain mentioned earlier the need for new regulators. What institutions or regulators do you think would need to be established in an independent Scotland? Has anyone made an assessment of the cost of that?

Jo Armstrong: I think the Scottish Government has produced a fairly broad-brush paper on the regulatory framework they would be looking to establish, and we accept that certainly some of the skills needed to run it efficiently and effectively we do not have in Scotland at the moment. We would be looking to have some sort of arrangement by which some of the regulatory structures continue to perform for the benefit of Scotland until such time as we have the skill sets necessary.

They also point out two quite interesting things. One is that of all the regulated structures none of them are set in stone and are constantly having to change to accommodate how the market reacts to the regulatory structures that they are facing. The cost structure, therefore, for some existing UK regulators may actually be a bit bloated, and I would argue that there are efficiencies to be had if you restructure and I would argue that there would be some for Scotland.

They are also suggesting that they have a model in Scotland that has worked fairly well for water and they would like to build on that as a mechanism for

better regulation within Scotland. The water regulator in Scotland that regulates Scottish Water, which is the whole water and sewerage provider in Scotland, has through its management generated something like 40% savings and efficiencies, created an infrastructure that is vastly improved given its starting point, and is now one of the cheapest providers of water and sewerage for domestic customers in the UK. I think it is important to note, however, in order for them to have done that they have had to rely on Ofwat's data sets, knowledge and experience and they have used that very effectively. They are now helping Ofwat develop, one might argue, the shape of the sector in England and Wales by introducing competition to their own domestic part of the market in England and Wales.

That is a relatively small part of its regulatory requirements, so there would be a requirement to piggyback off the back of existing activities in the UK. Again, we enter a world of negotiation and potential service level agreements or transition periods, which again I come back to how long is that, what is the cost and at what point do you then wean yourself off it? One assumes given our commitment to the EU that we will continue to have competition law equivalent to what we currently have, but it is interesting potentially that if the focus is on the Scottish dimension rather than the UK dimension it might focus on different activities than what we would currently happen because it is too small for the Competition Commissioner really to be interested in. You could argue that some aspects of greater efficiency or greater innovation might occur as a consequence of a greater focus on Scotland.

Iain McMillan: Well, I think that is correct but it would also mean duplication of regulators unless in some instances the regulators were shared. I think that has been mentioned. Again, if regulators are shared, then there could be economies of scale there, but perhaps the UK regulator would not regard a small matter in Scotland as being top priority, whereas an independent regulator in Scotland might well do. I think there are going to be some tensions there, but we would certainly see a situation where businesses that currently have to deal with one regulator would need to deal with two.

Now, on the financial services, for example, we have not taken an opinion on this ourselves, but our friends and colleagues in Scottish Financial Enterprise are on public record as saying that there would need to be a separate financial services regulator in Scotland and that the EU law requires that. That is one example of where there could be additional costs for business. Again, it is not just the regulators; it is the whole panoply of laws and rules and taxes as well. Over time, businesses may be dealing with a different corporation tax regime, for example, north and south. Corporation tax may come down in Scotland. The business rate has not. There is power for that now; it has not come down. The corporation tax could, but then it would have to come down to at least an extent that would offset the cost of having to segregate taxable profits north and south of the border and also the compliance costs with HMRC south of the border

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

and a Scottish revenue authority. Again, this is quite an expensive thing to look at.

Gordon MacIntyre-Kemp: Can I just say that, as I said before, I do not think separation is on the ballot paper and this is where a lot of business people are very interested—trying to understand what form of independence people are actually being asked to vote for. When the Government White Paper comes out in October we will get a much clearer view of that, but my form of independence ahead of that, that I actually believe in, is one where we understand that there are thousands of unions between not just ourselves in England, Wales and Northern Ireland but ourselves and other countries, Ireland in particular. Some of those unions work, some of them do not. The political union and the economic policy that we get from Westminster, the one size fits all, does not work and that is one of the things we want to lose. My form of independence is one where we keep the bits where collaboration and cooperation work and we lose the bits where it does not.

In terms of regulators, I think that if you are going to have a common market it makes sense to have, in some cases, a common regulator across that common market. We are seeing a lot of that across Europe right now. We have mentioned banking as well. There will be the European super grid, there will be a completely free energy market across Europe as well. Regulation has to be within a market, not within an old-fashioned sort of boundary. I think that is the mistake that a lot of people are making when they look at this. We already have a separate judiciary, a separate accounting exam, separate actuarial exams, and so on, those sorts of things. There are an awful lot of things that currently we have and companies do not seem to be complaining about that.

The final point is on tax, which is that devolution has already allowed us—should we vote for a Government that wants to use it—to change income tax. With the Scotland Act we will be able to change tax to a greater degree, so the income tax across borders exists with devolution and it is not an independence question specifically. On corporation tax, businesses deal internationally. They will tie in the different corporation tax rates. It is not too much of a problem, but can I just say that I think the problem with corporation tax right now is the variance that we do have between Scotland and England because right now we are giving 100% corporation tax rebate to some companies.

Q16 Katy Clark: We will be coming on to the issue of tax, but specifically on regulators, do you think it is feasible that Scotland would share some of the regulators with the rest of the UK?

Gordon MacIntyre-Kemp: The point I made was across open markets, yes. If you want a complete trade zone it is reasonable to say yes to that.

Katy Clark: The answer is yes?

Gordon MacIntyre-Kemp: Yes.

Q17 Chair: Just quickly, you talked about effectively collaborative regulation, where it works and does not work, as you have said. Do you not think there could be a problem that, if you like, some collaborative

regulation works for Scotland but might be perceived in England not to work in England's favour and, therefore, you may not have a choice of that?

Gordon MacIntyre-Kemp: Sorry, that is the situation we currently have, isn't it, that we have one regulator for the whole of the UK? If issues do not work for Wales, Northern Ireland or for the north of England, where I was brought up, then nobody really gets a say. If we have a shared regulator, then I would guess that we would have more say than we have currently. I think that is actually an improvement and not a problem.

Q18 Chair: You do not think it is a problem if England decided that it did not wish to share the regulation with Scotland?

Gordon MacIntyre-Kemp: There is a huge piece of negotiation to be done. Whether we go for changing devolution on a slow basis towards independence, which is the route that we are on right now, or whether we take the leap as a country and go for what I believe to be the optimal answer, there will be renegotiations either way. I believe that when cool heads following the actual election campaign get together we will find that there are ways and means to come up with an optimum solution in terms of regulation for both Scotland and the rest of the UK.

Chair: A lot of this seems to depend on belief.

Q19 Ann McKechin: It is estimated in Scotland that of firms with more than 250 employees only 18% of those companies are actually registered in Scotland. Would an independent Scotland be more or less attractive as a country to which headquartered companies would be attracted? What factors would you believe would have the greatest influence on it?

Jo Armstrong: I suppose the issue about headquarters is: is it large headquarters or small headquarters because all SMEs have their headquarters in Scotland. I think it is important to distinguish that that is an important driver if we are talking about the real powerhouse of job creation and economic growth.

If Scotland was independent, then we probably would find that Scottish development and national-type activities would be even more to the fore. They would be seeking more options to try to attract, probably requiring tax breaks to make that happen if you are talking about mobile capital. I certainly disagree with Gordon's views about the Ernst & Young report. We are talking about size of projects that are being brought in as a consequence of tax incentives and the like. Scotland is a small jurisdiction. Within the EU it is an attractive location.

Q20 Ann McKechin: Part of the thorough investment, certainly the oil and gas business, as Gordon has referred to, has been going through a growth period at the moment, clearly, that would include the figure that is currently going into the oil market.

Jo Armstrong: Yes, but most of the headquarters would be outside Scotland, I would think, than in Scotland. So in terms of balance of payments issues it is actually a moot point as to whether or not it would be net beneficial to the UK if (inaudible 10.55.25) are

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

already transmitted out of Scotland at the moment. It would be attractive. How much more we could attract will depend on how much mobile capital is willing to come. The attraction is not just about tax but clearly it is important. We have good transport systems. We have a highly educated population. We have wonderful countryside, which are all important factors in attracting inward investment. But if it is about attracting inward investment, then because, as the Ernst & Young report clearly said, it is a highly competitive marketplace and though Scotland has done very well, it is becoming much, much harder to be that attractive and probably tax incentives will have to increase rather than diminish to be able to attract yet more of that capital because there are many, many more places for them to go.

Iain McMillan: I think that is right. It could also be argued that the success of inward investment to Scotland has been as a result of access into the English market. It is absolutely seamless. There are no barriers at Hadrian's Wall. The tax system is becoming more competitive for businesses. What would happen after independence if these things started to change and businesses thought, "We did want that access to the rest of the UK, but you know what, if we go into Scotland their health and safety laws are different, their employment laws are different, they have shaved a couple of pence or three pence off corporation tax, they have done a few more things, but it is risky. They might have a separate currency one of these days and who knows. Let us just go to Tyneside". I am not making a forecast or a prediction, but businesses would have that in mind and would certainly factor these points in.

Jo Armstrong: To counter that, I would argue that they would come into Scotland to get access to the European market because England is out.

Iain McMillan: Well, you could argue that as well. Let us remember we are on the periphery of Europe up here. The further north you go, the more the connectivity disadvantages you.

Gordon MacIntyre-Kemp: I would like to thank Iain for pointing out the lack of infrastructure investment from Westminster and the lack of direct flights because of lack of powers to change things like fuel taxes and duties, and so on. I think that Scotland is aiming to be at the heart of Europe and in terms of headquarters businesses, I agree completely with Jo that if we are looking to grow Scottish businesses that have started here and help them to grow more quickly to give them direct access and direct help from Scottish Government assets in having a direct relationship with the EU, then helping to get them to go faster would be the best thing we can do for Scottish business. But you do need to, as part of a suite of products, attract HQs here. I think that if we have the rest of the UK after independence leave, then we will see a massive migration of headquarters from England to Scotland so they can actually stay within the European Union.

Q21 Ann McKechin: Can I just play devil's advocate? Two of the largest headquarters with thousands of staff in Scotland are the Royal Bank of Scotland and HBOS. Do you think it might be better

for Scotland's economy if it was independent that actually neither of those companies have their headquarters here given the issues and problems that they have?

Gordon MacIntyre-Kemp: No, I think that is a bit of a bizarre question. We were actually told that as a result of the UK Government's bailout one of the key things would be that we would maintain jobs in Scotland and we have seen about 8,000 jobs go from the Royal Bank of Scotland, for instance. I do not think that the current system has anything to really boast about there.

Ann McKechin: I am not talking about the actual performance of the companies. I am just talking about their actual situation as a headquarters.

Gordon MacIntyre-Kemp: Lots of small countries all over the world have large multinationals based there. I see that as being a benefit and in terms of HBOS I am actually quite unclear. Maybe on paper they are based here, yes, but it appears to me that most of their operations appear to be in—

Q22 Ann McKechin: That was my point because legally they are based here and it is their legal headquarters, which in terms of liability and debt is a key point. But the problem is much of their business is actually outwith Scotland.

Gordon MacIntyre-Kemp: Certainly, I know that 90% of their losses came from the London operations. What I would say is that especially if those corporation tax cuts, as part of a wide range of economic boosting measures from an independent Scottish Government, I would say that would be attractive to not just them but other large corporations to headquarter themselves here.

Ann McKechin: Thank you.

Chair: I want to bring in Robin Walker now. His question is to Iain. Some elements of it I think you have already covered, so we will be grateful in view of time if you did not repeat them.

Q23 Mr Walker: Picking up on both your comments today and the follow-up paper that you sent to Scottish Government, it raised a number of questions about tax rates, duties and levies. Is the primary concern in that area about raising sufficient revenue and giving the Government a sustainable tax base, or is it more about the competitiveness of the Scottish economy?

Iain McMillan: I think it is three things. Firstly, certainly, is the ability of an independent Scotland to fund itself in the long term, and that includes all the costs of social welfare and other things like that. It is something that most business leaders care about. But it is also about the degree to which Scottish businesses would be competitive after independence. There are signals being sent out that corporation tax, for example, in an independent Scotland would be lower. Firstly, that would require the political party that makes these promises to fulfil them, and weigh the balance of corporation tax versus other taxes. How do they fund the agreed degree of public spend?

But there is also the issue for business, the costs for business. At the moment, a business can operate across the UK and pay one set of corporation tax on its taxable profits. If Scotland becomes independent,

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

these taxable profits will have to be struck for the two jurisdictions, the rest of the UK and Scotland. That is actually quite complex, and it is also something that would need to be policed extensively by HMRC and the Scottish revenue authority, because these authorities would want to be sure that transactions were being passed from one jurisdiction to the other at full economic value, and that the highest taxable profits would not be taken in the lowest tax jurisdiction falsely. That could be quite an expensive thing to do, and it would be expensive for companies as well. Here is an example, and it is only one example, of a different jurisdiction introducing costs into business that are not welcome. That is two of the three. What was the third one?

Q24 Mr Walker: It was really balancing out those two. I just wondered, are most of your members taking the view that, in the event of independence, overall taxation in business would be higher or lower?

Iain McMillan: We don't know. What we do know is that the cost of servicing the two tax regimes will inevitably be higher, for the reasons that I have mentioned.

Q25 Mr Walker: Does anyone else want to come in on the tax point?

Gordon MacIntyre-Kemp: Yes. Basically, Scotland has, for the last 30 years, almost every single year—in fact, I think every single year—contributed more tax to the UK in percentage terms than it has received. Last year, for instance, 9.9% of tax revenues versus 9.3% of public spending. I also saw a lovely headline in, I think, *The Telegraph* a few months ago, where it said, “North Sea bonanza will give a £25 billion boost to George Osborne”, and I thought that was quite interesting because I would quite like to see some of that money spent in Scotland because I think we have underspent for many years. In terms of the point about taxation having sufficient revenues on-going, I think only independence really fully guarantees that.

We can talk about barriers as well in terms of taxation variances, including barriers. Actually, under advanced forms of devolution, those barriers still exist in the existing form of devolution, and I don't think they are barriers at all. I think they are opportunities. If there was a tax cut, for instance, that had the effect of reducing the overall income that Scotland got, the only reason for applying that is that it stimulated the economy and got more and more people into work and contributing to the economy, and therefore I don't think that cutting one tax necessarily means that the overall revenue will fall. If we can boost the economy, overall revenue should go up, and I think corporation tax, used in the right way as part of a suite of perks, is one of the things that can have that effect.

Jo Armstrong: Can I possibly come back on that?

Chair: Quickly.

Jo Armstrong: I think it is very important we do not get caught on the fact that from 1980 to now, it is a 30-year period, which is when the North Sea revenues kicked in—life started before 1980. The future for North Sea tax revenues is downward, not necessarily for North Sea jobs or North Sea output, but for North Sea taxes it is downwards. Tax competition currently

exists. I cannot believe that at this point George Osborne is currently struggling with Google et al, but that issue exists at the moment, let alone that it might or might not stop happening in Scotland. Scotland's productivity, as with the UK's, has improved by 10 percentage points in the last 10 years, when we have had massive boosts to public spending. That is still taking us to the top of the third quarter in the OECD, so we are woefully behind the curve on productivity, and if tax competition is the route to improving productivity, which is where it is needed to grow economic growth, then we have interceded probably, because if we drop taxes in Scotland, they are definitely going to drop taxes in the rest of the UK.

Gordon MacIntyre-Kemp: I would have to disagree with that.

Chair: The next question is being directed to you, so perhaps you will have a chance to incorporate your response in that.

Q26 Ann McKechin: I want to talk about corporation tax. I anticipate perhaps most of the members that you represent do not pay corporation tax, because most SMEs do not. What other key decisions and tax regulation do you believe is necessary to deliver that boost to the Scottish economy, which you have been talking about passionately this morning? Is it a lower income tax regime? Is it more business taxes? You mentioned that that had not been lowered in Scotland. What other levers do you think we should be using to achieve that level of growth and productivity that Jo was just referring to?

Gordon MacIntyre-Kemp: I think this is the key issue here, that there still are economic problems in Scotland, and one of the things that people say of the Scottish Government—regardless of what party is in charge—is “Why hasn't the Scottish Government managed to solve all of those things?” If a really good golfer plays a not very good golfer, and the really good golfer only has a sand wedge and the not very good golfer has the full set of tools, then I know who I am betting on. I did actually use Tiger Woods versus myself in that example, somebody pointed out I might not still be able to beat him.

Basically, there are significant powers and economic tools that would come to Scotland as a result of independence, ones we can use. I think I have mentioned air passenger duty before. There are tobacco duties, inheritance tax, alcohol duties, vehicle excise duty, all these sort of things.

Q27 Ann McKechin: Would it be lower or higher? Can I just ask you? What do you think the general trend would be? Do you think it would be a lower tax economy that you would be looking for in your group?

Gordon MacIntyre-Kemp: The referendum is a referendum. It is not an election. Whether the taxes are higher or lower depends on who Scotland votes into government, and I personally believe that, regardless of who we vote into government, having a government that is answerable only to the people of Scotland will make better decisions for Scotland and

17 June 2013 Iain McMillan, Gordon MacIntyre-Kemp and Jo Armstrong

be able to use these tools better, so I do not particularly care who governs Scotland afterwards.

Q28 Ann McKechin: Increased taxes for their members, they have increased tobacco taxes. Your members will be quite happy with that?

Gordon MacIntyre-Kemp: Let me just give you an example. When we launched, a few people said, “Look at all these right-wing supporters of independence. They are only interested in making money and so on”. Then, one after the other, when our members stood up to introduce themselves, they all talked about the distribution of wealth, the inequality of opportunity and so on, so I think my members are more motivated by improving Scotland as a whole and see the independence not as an end but the beginning of something better.

Q29 Ann McKechin: What kind of tax incentives or regulatory incentives would be different, then, from that which already exists in the rest of the UK? Are you talking about a higher taxation system with improved public services or are you talking about, which would certainly be an issue, focusing the budget on the business sector? I think it is fair to know where we stand.

Gordon MacIntyre-Kemp: The point is that it depends on who we elect as to whether or not we will have that.

Q30 Ann McKechin: I am not asking who you elect. I am just asking your view.

Gordon MacIntyre-Kemp: The view of Business for Scotland members is that if we reduce some taxes as part of an overall strategy, which will improve the economy, then we support that. If we increase our taxes as part of an overall suite of activities, then there is a possibility that we also support that. We are not, unlike some other organisations, just dead against all sorts of tax raises or for tax cuts. What we are for is coming up with an economic policy that is driven by the needs of Scotland, not the needs of the UK, which has a radically different economy to Scotland in many respects.

Jo Armstrong: It doesn't have a radically different economy to the rest of the UK. Scottish economy mirrors the UK, by and large.

Ann McKechin: Thank you.

Chair: Thanks. Last question. Just a moment. We need to conclude this session. We are running over time. Just Caroline Dinéage, and I would be grateful if you could give a very quick summary of the response to it.

Q31 Caroline Dinéage: Thank you very much, Chair. Yes, it is quite a simple question, but quite a

complex answer, probably. What would be in your view the implications of the ownership, assets and liabilities of businesses that are either wholly or partly owned by the UK Government in the case of independence?

Iain McMillan: That is a very good question, and I think it would be a very complex answer. There are some assets that would be reasonably straightforward to negotiate and to maintain, but there would be other assets that would be extraordinarily difficult to do that. For example, how would you disaggregate the UK's defence command and control systems between Scotland and the rest of the UK? It would be almost impossible, and in fact Scotland would probably have—

Q32 Chair: Can I just intervene at this point and suggest that, by all means give a fairly off-the-cuff answer, but you might want to think of this in more depth and give a written response after further consideration? I do appreciate that it is a complicated question. Jo?

Jo Armstrong: Again, it seems to me it is coming down a negotiated position, as it is in many of these things, which calls into question if split negotiation is possible, because if you cannot clearly articulate what it looks like now, then, as you get into negotiation with civil servants—sorry to the civil servants in the room—it takes longer, not a shorter time.

Gordon MacIntyre-Kemp: I buy into the principle that an independent Scotland would have a percentage share of the assets and take a percentage share of debts and so on as well. I believe, I agree with Jo, it is down to negotiation, and it depends on what the two Governments—the Government of an independent Scotland and the Government of the rest of the UK—believe, but I am sure there would be a mutually beneficial agreement coming out of that.

Chair: Thanks very much. This is a huge subject that perhaps we could have spent all day discussing. I am conscious of the fact that I have listed a whole lot of supplementaries that I would have liked to ask, but resisted the temptation in view of the shortness of time. I think we will follow up with some further questions that we would like to ask you, and we will be grateful for your responses. In some of those, if you feel there is a question that we should have asked you but did not and you would like to reply to, we would prefer you to give your evidence in supplementary written form, and it will be given appropriate consideration. Thank you very much. That is extremely helpful. Could we have our next panel, please?

Examination of Witnesses

Witnesses: **Robin Parker**, President, NUS Scotland, **Mr Alastair Sim**, Director, Universities Scotland, and **Ms Mary Senior**, Scottish Official, University and College Union Scotland, gave evidence.

Q33 Chair: Good morning and thank you. I do appreciate your willingness to contribute to this inquiry. You may have been in earlier when I made my introductory remarks to the previous panel, but in case you were not I will repeat them. Please do not feel that you have to reply in total to every question if there is nothing more that you wish to add to anything that a previous speaker has said. Equally, if you feel there is something to add or subtract, please feel free to do so. Again, if we could start by just asking you to introduce yourselves, starting with you, Robin.

Robin Parker: Robin Parker. I am the President of the National Union of Students in Scotland.

Alastair Sim: I am Alastair Sim. I am the Director of Universities Scotland, the representative organisation for Scottish higher education institutions.

Ms Senior: Hello. I am Mary Senior. I am the Scottish Official for the University and College Union.

Q34 Ann McKechin: This is for all the panel, but it is based on the submissions from Universities Scotland. On page 5 of the submission, Alastair, you referred to the estimate by your technical working group of the amount of income stream that Scottish universities are receiving from the rest of the UK students, and you are estimating that by the academic year 2014/2015, that would rise to £62 million, which is obviously a very considerable figure. If the scenario is that Scotland becomes independent, and if the UK and Scotland are still remaining members of the European Union, that would clearly have a very significant impact on the financial viability of universities in Scotland. I just wonder if you could comment about that income stream, and also what would impact that would have—perhaps for Robin—on Scottish students in terms of competition for places.

Alastair Sim: I think that is an extremely important issue, and I think it is one where we need to have absolute clarity before we have to make a choice. We have been exploring this on our own behalf and have submitted advice to the Scottish Government. The advice that our lawyers have come up with through a very careful trawl through European Court of Justice case work is that it may be possible to construct a case, where there is objective justification, based on residence for EU citizens who are normally resident in Scotland to benefit from a particular fees or no-fees regime and for EU citizens resident elsewhere to be treated differently if there is an objective justification for that.

Q35 Ann McKechin: That is a difficult case, because I understand that the two governments that are trying to make an exemption in Austria and Belgium were both unsuccessful.

Alastair Sim: On the basis of the objective justification, which they had failed to prove.

Q36 Ann McKechin: It was quite a tough test.

Alastair Sim: Yes, it is a tough test. I think what I am really trying to say here is that it is an important issue where we have made a contribution in trying to clarify the issues, and where I think the ball is now in the court of the proponents of the different constitutional options to say, on the basis of their analysis and evidence, how they would deal with the issue.

Q37 Ann McKechin: As I understand, quoting from an article by the *Glasgow Herald* on 31 May about your legal advice, it said, “More relevant for the Scottish Government is that the advice goes on to say it might, as an alternative solution as we are proposing, fit more easily with EU, if Scotland charged all students fees, including to Scots, and then it fed grants back to its domestic students.” Have you had any conversations with the Scottish Government about that scenario?

Alastair Sim: Not specifically. I think the conversations that we have had with the Scottish Government have been really along the lines that they have welcomed certainly our legal advice. They now know that their job is to go and do the due diligence and to work out what their evidenced position is about what would happen to students from the remnant United Kingdom in the event of Scotland becoming independent.

Q38 Ann McKechin: Thank you. Robin, do you want to comment on that?

Robin Parker: Yes. Just by way of starter, really, just to say obviously NUS Scotland is a democratic organisation. Our position on the constitutional debate is that our current stance is very much that we see ourselves as neutral in terms of the yes/no question, and very much our role is that we particularly welcome that 16- and 17-year-olds can vote in this referendum, and hope they can do in future elections. We see our question as first of all making sure that particularly our members contribute to this as it being an informed debate, and that particularly we get answers to our questions from both campaigns about the various implications of different scenarios that might result from the constitutional debate that is happening.

I think this question about the EU and the rest of the UK, the student situation, is one of the really important ones. I suppose fundamentally we come at this from, as NUS Scotland, a position where we don't think it is right that any students pay tuition fees in order to study their education in Scotland, and we represent all students in Scotland, no matter where they are from.

There is that question, and then there is the question of making sure that the higher education in Scotland is well funded for all the benefits that that brings. I think you have already discussed the question and we do not have any legal advice that we can contribute to this, but it does seem that a large portion certainly of the legal advice suggests that it would not be possible to charge tuition fees to any students from

17 June 2013 Robin Parker, Alastair Sim and Ms Mary Senior

the EU. There are two important questions to the pro-independence campaign, firstly around that funding that does not come from SCUK students any more, where that funding does come from. Secondly, around what really happens in terms of student numbers, and making sure that—because currently the Scottish Government can set the number of places for Scottish and EU students, but cannot—

Ann McKechin: Cannot discriminate between them.

Robin Parker: Set the balance between the two. I think there is a second really important question to the pro-independence campaign about how we make sure that there are sufficient places for Scottish students or rather Scottish would-be students, wherever that may be, and that does not necessarily just have to be in Scotland. It could be anywhere, I think.

Equally, on the other side, with the Better Together campaign, there is just as much a question about continuing to contribute to how the Scottish Government continues to fund a well-funded higher education system, particularly when the potential for Westminster Government to continue an austerity agenda and the proposed tension and implications of that for the Scottish Government's block grant. I think there is a really strong willingness from the Scottish public to see a well-funded higher education system in Scotland, so I think there is just as much a question for the Better Together campaign about how that continues in future.

Q39 Ann McKechin: Just very quickly on that, you have probably heard that there has been some suggestion the Treasury have talked about privatising the student loan company, which is obviously owned jointly. I just wondered to what extent you would be concerned if the student loan book in Scotland had to be basically hived off separately in terms of its direct sustainability.

Robin Parker: I think that is new news, as it were, and it is an issue that I am still trying to get my head fully around in terms of the implications for this, and it is potentially something I can get back to you on.

Ann McKechin: Perhaps if you come back to us on that matter.

Robin Parker: But just to say that I think, from NUS' point of view, and particularly NUS across the UK, it is extremely worrying that this is an option that is being considered by the UK Government and it is extremely alarming that it would even be considered.

Ann McKechin: Thank you. Mary.

Ms Senior: Yes, thank you. Like NUS, the University and College Union does not have a fixed position and is not intending to take a position in terms of constitutional options. However, we do think it is important to raise issues of concern to our members in terms of the debate. I think I really very much agree with the points that Robin has made. First importance is public funding of higher education in Scotland and what will each constitutional settlement mean for the future of public funding of higher education, and also in terms of access for students from wherever they live.

One point that has not been raised already is the situation in terms of Scotland's position in relation to the European Union should Scotland be independent,

because I think there are many questions as to what the position would be if there was a yes vote for independence. That is an issue that needs to be answered by each of the sides.

Q40 Chair: Yes. We will be talking about that in a moment. Can I just come in with a question to Universities Scotland, part of which I think you have touched on in your previous answer? In your evidence, you highlight "The sustainable access to appropriately qualified learners", and again, "Quality and quality assurance of teaching" as areas that we secured. What risk do you think independence poses to this?

Alastair Sim: I don't think I would necessarily express it as a risk. I think we need to have quality assurance arrangements that are at least as good as what we have at the moment. What we have at the moment is extraordinarily highly devolved. While the Quality Assurance Agency exists as a UK entity, there is a distinctly different regime in Scotland called enhancement-led institutional review, which, as Robin might want to comment on, has a much greater degree of student participation in quality assurance and a much greater emphasis on constant improvement in quality. What our paper says is, if you are proposing a particular constitutional option, you need to have a credible answer for how you would be able to have a regime that ensures the quality of degrees, but there are all sorts of ways you can do that.

Robin Parker: In terms of quality assurance, I can only echo what Alastair said, but I think we have in some ways across many of these things—I suppose access is another area—the higher education system in Scotland has a very good story to tell, and I would almost argue it is one of the biggest successes of devolution across all different governments that we have had in Scotland. Higher education has been an incredible success of devolution.

Q41 Chair: Mary?

Ms Senior: I don't really have anything to add.

Q42 Mike Crockart: We heard more about that point of Scottish higher education being an immensely successful partner in the successful UK industry. One of the major points about that of course is the research funding. As it stands at the moment, Scottish higher education from the Scottish Funding Council receives £242 million in funding. On top of that, it manages to access £356 million through the Research Councils, which is significantly greater than its population share. The question really is, how do you see that continuing in the event of independence? Would there be any issues around that?

Alastair Sim: I think first of all I would like to say yes—we have been asked to be participants in multiple levels of what I have described as the research ecosystem. It is essential. At the moment, Scottish universities are extraordinarily strong leaders at multiple levels, as in we have an extraordinary level of success in competitively bidding for Research Council projects on the basis simply of the quality of what has been done here. We also have very high levels of success in bidding for European resources

17 June 2013 Robin Parker, Alastair Sim and Ms Mary Senior

and competing internationally and in attracting resources from charities and from industry. That is on the basis of our quality.

Our position is that the proponents of different constitutional elections must be coming forward with solid proposals for how they would enable us to have at least as good an ability to sustain that research infrastructure. I think, for proponents of independence, the idea that we are discussing is, could you maintain some sort of common research area? I think the challenge is with them to articulate that in full in the approach to referendum so that we see from them and from the proponents other of constitutional options how we need to sustain our ability to be part of that multi-levelled research ecosystem.

Robin Parker: Just to add only a couple of things to that, there are two other elements that are important. One of them is about the money element and simply how research funding is an important part of how universities are funded, and so I think there is an important question there to the Yes campaign about how the disproportional amount of funding that comes from UK Research Councils, which is won on the merit of success, where that money comes from in future.

There is another really important issue, and I suppose I obviously talked a bit about how the Scottish HE system has experience and ability of going wider in terms of research funding. First of all, from our point of view, it is incredibly important that all universities have an element of research. That is something that makes a university a university.

Then there is something about, as well, using research funding to stimulate particular areas of the economy that are nationally important. I think there is a question to the Better Together campaign about, if the current settlement continues or something like it continues, is there a way that could be found? How would you find a way to direct the more Scottish-specific areas or national sectors that might want to be stimulated? There has been a suggestion that one of the benefits of independence might be that you could tie the research funding towards particular interests or particular areas of development you might want to make. I suppose the question arises for the Better Together campaign about how you might do something similar under the current situation.

Ms Senior: I would just add that you are right to talk about the disproportionate research funding in terms of population count, but when you look at the proportion of academic staff in Scotland, that is less disproportionate because we do have a strong academic sector in Scotland. I suppose I just want to bring in the issue of academic freedom and what each constitutional settlement will mean for academic freedom and having our academics able to further the bounds of knowledge and pursue different research interests. From UCU's perspective, our concern is the impact the market and different Government structures has on higher education and that really determines how universities are able to further issues around academic freedom.

Q43 Mike Crockart: Can I just come back to one thing that Alastair said? He talked about proposals

around a common research area. That is not something that I have come across before. Is that thinking that you would somehow manage to continue with Research Councils in their present format and be able to do research on a UK-wide basis, and what would be the legal implications of trying to do that between independent countries?

Alastair Sim: I think that is something for the Scottish Government to articulate, but it is a matter of discussion at the moment as, in a sense, a common service arrangement where you might maintain some element of supra-national research infrastructure, but really it is for proponents of constitutional options to be developing their ideas of how one would take that forward, so I think that is a question that is best directed at the Scottish Government.

Q44 Mike Crockart: But it is certainly something that would need to be figured out from your perspective because there is such a large swathe of funding that comes from a UK-wide institution as it stands at the moment.

Alastair Sim: Yes. That is exactly the approach we have taken. We are setting up a healthy, proactive and important discussion of the policies needed to sustain successful universities and inviting the proponents of all constitutional options to articulate how we would be able to incarnate those policies that would maintain our successful contribution to Scotland and develop it further.

Mike Crockart: Thank you.

Q45 Katy Clark: Universities also receive research funding from the private sector and indeed also from private charities such as Wellcome, a lot of which are, I believe, down south. How do you think separation will affect this funding flow?

Alastair Sim: Again, I think this is really a question that the proponents of the options have to articulate answers for themselves on. I would say, as a background to that, that we are still in an extraordinarily strong position in terms of quality and in terms of our capacity to attract funding from industrial and charitable sources. In the last year, for which I have figures available, we attracted 14% of all the UK charitable investment in universities, so we are extraordinarily strong there. I think charities are drawn within the UK and across boundaries internationally to where the best research is that is going to solve the problems we are interested in solving, but I do think it is up to the proponents of the constitutional options to say how, within their options, they could ensure that we have infrastructure that is supportive of this cross-border flow.

Q46 Katy Clark: If we think of, for example, private companies, at least in England or down south, or charities that are based down south, do they invest overseas? The sector, how does it work? Are they less likely to invest in Scotland if Scotland is independent?

Alastair Sim: I think, generally, people who want to solve a problem will go to where the problem is best solved. To give an example, the German Fraunhofer institute, has just set up a large investment in Scotland, a lot of university investment with the

17 June 2013 Robin Parker, Alastair Sim and Ms Mary Senior

University of Strathclyde at its core in applying for funding, so they are also establishing the UK headquarters at the University of Strathclyde. That is a good example of cross-border operation, and it is cross-border operation that is drawn here because we have the expertise and the quality of research that is going to solve the problems that they want solved. I think the world of research and world of ideas is something that works pretty robustly across boundaries as long as you are able to facilitate the operation of that multi-layer ecosystem.

Q47 Chair: Thanks. Can I just go back to the EU issue slightly different from that posed by Ann earlier? In what ways do you think the lack of certainty of EU membership affects the ability of Scottish universities to attract overseas students? Do you think it is an issue?

Alastair Sim: It has not been an issue up until now. As far as our competitiveness in international markets for students is concerned, really the barriers that we faced—I think barriers this Committee has commented on—have been barriers to do with the immigration policies as they have been perceived by the UK Border Agency. That has put us in a difficult competitive position in relation to other countries such as Australia, Canada and the United States, which are competing very aggressively for international talent. We have seen declines in the UK year on year of about 25% in students from India and Pakistan, for instance. I, certainly, from my members, have detected absolutely no sign that the EU debate has been of relevance to international recruitment, but we have faced other policy obstacles.

Robin Parker: Just to agree with Alastair, I think the biggest issue in terms of international recruitment is Home Office policy, and I think that does relate to the constitutional question in a couple of ways. There is, first of all, an obvious question to the Yes campaign about what kind of structures and what kind of policies would exist were Scotland to become independent as regards to immigration generally, but to student immigration in particular. Equally, there is a question to the Better Together campaign, because wherever we are coming from with this, and yes, Scotland wants to see a strong, successful higher education system in Scotland, and having a diverse student population is an incredibly important part of that. How you could find improvements to the international student immigration system under a devolved settlement is an important question there, and it is also potentially not without precedent. There has been in the past, with the Fresh Talent scheme, flexibility for Scotland in terms of international student immigration, so there are important questions that need to be answered there as well.

Q48 Chair: I was going to say, have you seen any indication that an independent Scotland would have a more permissive international student visa regime?

Alastair Sim: If I could just comment, from conversations that we have had across political parties in Scotland as we have been dealing with the issues caused by the UK Border Agency, the cross-party consensus in Scotland has been that UKBA have been

getting it wrong in a way that has been disadvantageous to our international standing. I have no idea what is possible, but I would certainly represent a strong cross-party consensus that the current UKBA line is not right and is not competitive.

Ms Senior: Alastair is absolutely right. There is a strong consensus that UKBA is hindering universities, but I think it would be helpful to have more clarity from both the Yes campaign and the No campaign as to a future immigration policy for Scotland or what is possible within greater devolution.

I wanted to go on to say that the UKBA is problematic for staff too. We operate in an international context in terms of universities in Scotland. We have an international labour market, and UKBA also prevents staff from crossing borders and coming from overseas to work in Scotland.

Q49 Chair: If I can just pursue this a little more, as we stand at the moment, the parties collectively in Scotland can blame the Westminster Government for this particular regime. However, if they were independent, those parties would have to implement their own and would potentially be subject to the same political pressures as prevail in the Westminster Government. Have you seen any indication that it might result in a slight change of attitude?

Alastair Sim: I think there is a slightly different political environment that probably informs that cross-party consensus in Scotland. It is a consensus that I would characterise from conversations that we have had with politicians as being one based on the shared recognition that Scotland is stronger for attracting international talent across borders, and I think, certainly from conversations that we have had, we are very much about making sure that we are open to talent. Everybody has seen that as being consistent with the shared aspirations across parties as to what sort of outward looking country we want to be.

Q50 Caroline Dinenage: The Institute of Physics raised concerns about the effect of independence on access to European facilities, things like the CERN, the European Organisation for Astronomical Research, the European Space Agency, and the ability to raise sufficient funds to secure their access. I know we have spoken a little bit about Research Councils UK, but as this is all currently facilitated by RCUK. Who would ensure and finance this kind of access in the future?

Alastair Sim: First of all, these are incredibly important projects and incredibly important networks to be involved in. The networks where I do not necessarily think our constitutional future is—I think whatever the constitutional future is, that we can participate in these networks. Looking at the membership of CERN and looking at the membership of European Southern Observatory, it is not a membership restricted to EU. Switzerland and Norway, for instance, are active participants and financial contributors to these.

It really comes down, if there was to be independence, to a political choice by the post-independence Government. Do you wish to continue to participate in these networks, which we think are extremely

17 June 2013 Robin Parker, Alastair Sim and Ms Mary Senior

important? If so, how do you finance it? Do you finance it directly from Scotland, as, for instance, Norway does? Do you finance it as part of some sort of shared supra-national funding infrastructure? I do not think a different constitutional settlement is a showstopper in terms of being able to participate. Looking at CERN in particular, I was interested that very quickly after the breakup of the Czechoslovakia Republic, both the Czech Republic and Slovakia Republic came back as members of CERN.

Q51 Caroline Dineneage: Physics is such a crucial area to Scottish universities. Have you had any indication from either of the two campaigns as to how to approach this?

Alastair Sim: No. I think really this is in the area where we, as I think I have said before, have tried to set out as clearly as we can what the policy priorities of Scottish universities are, and I think the period between now and the referendum is one where we would wish to see clear, evidenced proposals from the proponents of all constitutional ways forward.

Caroline Dineneage: Thank you.

Q52 Paul Blomfield: Can I return to the position of Scottish universities in a post-independence scenario in terms of student perception, putting aside the issues of the problems with the current visa regime, which this Committee, along with all other committees of the Commons and the Lords, has made strong representations upon? Robin, looking at it in terms of student perception, the UK universities brand has strong draw internationally. If you disaggregate the brand, what perception do you think students would have, both internationally and students from the rest of the UK, in terms of the perception of Scottish universities as institutions of choice?

Robin Parker: I think my own view would be one that there is a strong perception—it almost sits to the side of the constitutional debate—of a Scottish higher education system that is a welcoming one, that is one that is very successful, has a very good story to tell and provides a very high standard of teaching and learning. We have already talked a bit about the quality assurance system in Scotland as distinctive as one that strongly embraces partnership. Scotland has its own student partnership framework. We have our own system that is based around enhancement, and there have been efforts from Universities Scotland about taking a collective Scottish approach to talking about Scottish higher education internationally. My view is that it is something that in any constitutional situation we can take advantage of having a good story to tell.

Q53 Paul Blomfield: I certainly agree that Scottish higher education does have a great story to tell. Whether that is recognised, I guess, is behind my problem—what if you disaggregate Scottish higher education from UK higher education, which is second only in the world to the United States?—in terms of perception, whether you think that would make any real difference.

Robin Parker: I suppose in some ways it is already, certainly in the mindsets of some students, for sure,

already disaggregated from the UK system. If you look at some of the contrasts between an approach in England that is being driven more and more towards a consumerist approach to education and contrast that with one that is much more about partnership and is about collaboration and so on in Scotland, there is a disaggregated system, and I would argue that the approach we are taking in Scotland is a much better one.

If you also contrast it today with the report from Alan Milburn around fair access and the role of higher education in terms of social mobility, for a long time Scotland has had a worse rating in terms of widening access, but the kinds of initiatives that are happening right now, right across the spread, I think are really now UK-leading in terms of the approach that is being taken to widening access and making access fair. There is the approach of outcome agreements where each university is having to set out what it is doing around fair access. The Scottish Government has introduced a whole number of extra places. There is a student support system that now is better than the student support system in England. There are a whole number of things that are happening in Scotland, which I think credit a stronger higher education system, and that leads to a stronger perception among students.

Q54 Ann McKechnin: Can I just ask you this, Robin? You will have the recent reports about social mobility and students in Scotland, and the evidence unfortunately seems as if it is going in the opposite direction. Although there are incentives, the test would be whether or not you could make a sustained change for the next five years. Do you think that these changes are going to achieve that? Particularly given, as we have been talking today about perhaps a very substantial drop in budget, unless the Scottish Government comes up with a huge amount of additional money if it becomes independent. How does it intend to maintain that?

Robin Parker: I think it is important to say, in terms of the financial situation, I can probably speak for the rest of the panel—maybe I shouldn't be too sure about that—there is a strong agreement that the higher education system in Scotland is as well funded, if not better funded, than the English higher education system just now.

Q55 Ann McKechnin: What I am saying is that it would have to be a lot higher if we were independent because of the loss of income stream from English students, so potentially there would be a gap in terms of research funding that would have to be made up. Would you be expecting and anticipating that any independent Scottish Government should make up the balance?

Robin Parker: As I said earlier, on the one hand you have the question to the Yes campaign about how, for example, in the case there are less UK student fees, how that funding is substituted, but equally there are questions on the other side. First of all, there are the potential block grant pressures on the Scottish Government that result from a different economic approach and one that certainly my own organisation

17 June 2013 Robin Parker, Alastair Sim and Ms Mary Senior

disagrees with. There is also a question, I suppose, that is about—fundamentally I think it is wrong that the students in the rest of the UK are paying tuition fees to come to Scotland. That is an unfair situation—

Q56 Ann McKechin: I know that, but I am just saying that this is what the impact of our independence would be on Scottish higher education, and there would be a substantial gap that would have to be filled. Otherwise there would have to be far less students.

Robin Parker: Probably across all of the things we are talking about, my own view would be that ultimately what NUS Scotland wants to see is a fair, well-funded, flexible, free education system, and the problem in the main—there are some really important issues that we are discussing—is that this is ultimately about political choices. I was listening to some of the previous Committee discussion talking about the attractiveness of investment of Scotland. A big proportion of that is about the skills of our population, and a huge amount of that comes from investment in higher education, equally, in further education, and I think ultimately that is about political choices, and you can make those political choices under any constitutional situation.

Alastair Sim: Just on a factual level, I think it would probably be useful if I wrote to the Committee, because I think if you look at what has been happening in widening access it would be wrong to characterise it as going backwards. It is not moving forwards as fast as one would like, but I think I would want to clarify the record on that.

Robin Parker: Also, a lot of the new initiatives that have come out over the last couple of years and we have not seen the full result of statistics and so on. Hopefully we can all be hopeful about that.

Q57 Chair: I just emphasise that this is not just about UK students and improving access for them. It is about the brand for overseas students. Do you think Scotland has benefited from the collective, positive brand, Britain, that there is with education? How well do you think you could sustain that as an independent country?

Alastair Sim: It has worked both ways. I think the brand of UK higher education is extraordinarily strong, and absolutely rightly so. There have also been some opportunities from there being a little bit of subtlety around that brand for Scotland. For instance, when we had a Fresh Talent regime back in the middle of the last decade, which improved post-study work options for overseas students relative to that of the

rest of the United Kingdom, maybe in recognition of a different demographic and skills challenges.

Overseas markets were pretty quick to pick up that there was a distinctive offer in Scotland. There was assured quality of universities, firstly, then there was a distinctive offer that they were interested in and would pursue. Likewise, as Robin referred to, we have been developing brand propositions for Scotland based around a lot of the quality of experiences students have and the role of the four-year degree fits in better with international degree frameworks than typically the three-year degree does.

While we have benefited from being part of a very strong brand, I think there are also ways in which we can see Scotland has something distinctive that is an offer on top of that.

Q58 Mr Walker: Just to come on that. Before I joined this Committee, I spent some time on the Welsh Affairs Select Committee, and as part of that we visited Brussels to look at how Wales is marketing itself. We heard a lot of very positive feedback about how successfully Scotland was marketing itself on the universities front and on the UKTI front using the UK diplomatic network both in the EU and beyond. As part of the discussion here, very importantly, there is that enormous diplomatic network currently available to Scotland to sell that brand and sell its universities on the back of it, and there is a risk in the move towards independence of having a much smaller diplomatic network on which to piggyback that very strong offer.

Alastair Sim: I think that there are issues. Would the relationship, for instance, with British Council, and we work on a couple of projects and do have staff at British Council to promote the brand representation of Scottish universities. If a different constitutional option is chosen, there is thinking to do about how you best have a network that represents Scotland internationally, but I do think we do it from the basis of having a really world-class product and that discerning consumers worldwide are pretty good at sniffing out world-class products.

Chair: Thank you very much. I will repeat what I said to the previous panel. It may well be that there will be further questions that we feel we should have asked but did not, and we will write to you and be grateful for your response. Equally, you may feel that there are questions that we should have asked but did not and that you would like to reply to, so please feel free to send us any further evidence. That is extremely helpful, and thank you very much for your contribution. Can I have the next panel?

Examination of Witnesses

Witnesses: **Trisha McAuley**, Director for Scotland, Consumer Futures, **Robert Hammond**, Director of Postal Policy and Regulation, Consumer Futures, **John Brown**, Scottish Regional Officer, Communications Workers Union, **Paul Hook**, Head of Policy and Communications, National Federation of Subpostmasters, **Jonathan Millidge**, Company Secretary, Royal Mail, and **Mike Granville**, Head of Stakeholder Relations, Post Office Limited, gave evidence.

Q59 Chair: Good morning. It still is morning, just. Thank you for agreeing to give evidence at this

inquiry. I would just start with the advice that I gave the previous panellists. In fact, looking at the

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

members that we have in front here, I would particularly emphasise, if your views are reflected in the contributions of the previous speaker, please do not feel that you need to repeat them, otherwise we could be here for a very long session. We will not think ill of you if you forego the right to speak on every issue. Equally, of course, if you wish to disagree or whatever with another speaker, please feel free to do so.

I will start, as I did with the others, by just asking you to introduce yourself for transcription purposes, starting with you, Mike.

Mike Granville: I am Mike Granville from Post Office Limited.

Jonathan Millidge: Hello. I am Jon Millidge. I am Company Secretary from Royal Mail Group.

Paul Hook: I am Paul Hook from the National Federation of Subpostmasters.

John Brown: I am John Brown, Regional Secretary of Scotland for the CWU.

Robert Hammond: I am Robert Hammond from Consumer Futures, and I am the Director of Postal Policy and Regulation.

Trisha McAuley: I am Trisha McAuley. I am the Director for Scotland for Consumer Futures.

Q60 Chair: Thank you very much, and I will start with a fairly general question. Once again, I will repeat, because it is a general question, I would be grateful if people did not talk infinitely on it. Both Post Office and Royal Mail are facing huge challenges. How does the question of independence for Scotland affect your planning, and do you see it as a risk or an opportunity? Who would like to lead on that? No one. Paul, you have the widest smile, so I will let you go first.

Paul Hook: I will probably limit my response to this question to the impact on the post office network, rather than Royal Mail. Clearly, the answer is both. It is a hypothetical situation. There are risks and there are opportunities. I think it is important to understand, as the Chair has alluded to, the fact that the status quo is not great for the post office network in Scotland or across the rest of the UK. There is a very significant proportion of post offices that are operating on the very edge of financial viability. Clearly, the Scottish network has a higher than average proportion of rural post offices. It has a higher than average proportion of urban deprived post offices compared with the rest of the UK. I don't have access to the data of exactly how the subsidy is spent, but on the face of it it is probably a fair assumption that those rural and urban deprived offices are going to command a greater element of the subsidy than others.

That is not to say that there are not opportunities in there for an independent Scottish Government to use the political will and their imagination and determination to maintain existing services through an independent Scottish network to drive new services through it and make a hypothetical independent Scottish post office network less dependent on subsidy than it currently is.

Q61 Chair: Have you any indication that an independent Scottish Government might be prepared to invest more in sustaining the network than perhaps the current Westminster Government?

Paul Hook: No, but we have not asked the question of them either. Certainly the current devolved Scottish Government has shown its support for the post office network in the form of two sets of grant funding, both of £1 million given to a total of around 100 post offices in 2010 and 2011 to help them diversify their business and thereby become more sustainable. It is not necessarily, I don't think, about spending more. Some members of the Committee may be aware that there was an independent report conducted by the then postal services regulator a few years ago, which found that post offices provided a net social value to the UK of £2 billion, and post offices were saving a significant amount of money in other areas, whether that is support for rural communities or support for small businesses. It could be through indirect support, so, rather than just increasing the level of subsidy, it could be through facilitating and encouraging Scottish local authorities to make more services available through post offices, and thereby make post offices more financially viable and sustainable. That is a very long answer to a short question. The answer to the question is no but I do not think it is simply a question of having to increase the subsidy. I think there are a lot of options out there to make an independent Scottish network financially viable that are not necessarily entirely dependent on an increasing subsidy.

Q62 Chair: Previous Committee inquiries have looked at the range of options that are available and would not necessarily disagree with that. But I think what we would be asking is if there is any indication that in an independent Scotland this would happen. Is there any evidence yet?

Paul Hook: I do not see any evidence for or against that because it is a hypothetical situation.

Q63 Chair: I am going to ask Royal Mail now, given that you are the other part of the industry and it has particular significance for you.

Jonathan Millidge: As you will understand, we have a huge undertaking in Scotland. We have about 11,700 employees who deliver to 2.5 million addresses, so it is a big undertaking. We have not done any specific planning looking at what would be the impact should the Scottish people choose to go for independence. It clearly is a big undertaking that is part of UK-wide network, so our universal service obligation is UK wide and the Scottish element of it is an integrated part of that. So it would take a lot of detailed planning and a lot of thought to see if that was separable from the rest of the UK network.

Q64 Chair: You say it would take a lot. Do you not feel you should be doing it?

Jonathan Millidge: Not at the moment. We have not had any discussions with Government either in Westminster or in Holyrood on what might happen on this. The Scottish people will have their vote in 2014 and at that point there might be a bit more clarity once

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

legislators and Governments have determined how they would want a postal service to operate in an independent Scotland.

Q65 Chair: I personally find that quite astonishing. This is a huge business of crucial significance to the people in the UK and in Scotland in particular. Do you not feel that there should be rather more preparatory planning given the fact that the referendum is going to happen?

Jonathan Millidge: As you say, the referendum will happen and there will then be decisions by Governments as to how they want to provide postal services. So what could Royal Mail do in the short term other than try to anticipate what the respective Governments would wish to provide by way of a postal service within an independent Scotland? There is a whole range of different options that could be put in place. It is not for Royal Mail to second guess what an independent Government might want to do.

Q66 Chair: It may not be but it would be reasonable for Royal Mail to list the options for the Government.

Jonathan Millidge: If we are asked by the Government to look at the options then of course we will have those discussions with them at the time.

Q67 Chair: Do you not think you should have them anyway?

Jonathan Millidge: As I said, I think it is up to legislators in the potential independent Government to decide what service it is and how they would like to offer it. Of course we will participate in discussions on that.

Chair: I have probably laboured the point enough.

Q68 Caroline Dinéage: Largely on that same point and continuing to Royal Mail, in a business situation if you were facing potentially massive change you would look at the potential facing you and you would work out your future strategy. Are you saying that you have not done that at all?

Jonathan Millidge: No. We have not had any discussions with the Government about what a postal service in an independent Scotland would look like.

Q69 Caroline Dinéage: Is that because you are anticipating that the vote will be no? Or is that because you are taking a lackadaisical attitude about how it is all going to pan out?

Jonathan Millidge: With respect I do not think it is either of those things. I have no view as to which way the referendum vote will go. It is not my place to take such a view. But there is a range of different options that would be available to a new independent Scotland and it is up to the legislators there to determine how it is that they would want to run a postal service within that independence.

Q70 Caroline Dinéage: Bearing in mind that Royal Mail are like to be privatised by 2014, should you not be setting out your stall and preparing a business case for how you might then potentially sell yourself to a future independent Scotland?

Jonathan Millidge: That is jumping the gun a bit into presuming an outcome of a referendum. At the moment we are waiting to see what happens on that. We will have discussions with the Government in Westminster and the Government in Holyrood, if there is a vote for independence, and we will make a decision then. It does not form part of our case around any future ownership of the company.

Q71 Katy Clark: Both Royal Mail and Post Office are UK entities and therefore organise their finances at that level. But can you give some indication of the financial health of both organisations in Scotland?

Jonathan Millidge: For Royal Mail we do not look at Scotland as a profit centre at all. We have an integrated network; we have the same obligations for delivering mail in Scotland as we do in the rest of the country. So we do not look at separating out the cost of Scotland because it is all integrated. There are networks that go between Scotland and England and Wales and Northern Ireland and so on and we do not disaggregate those. We have an obligation to deliver mail at a uniform price everywhere across the UK. We do not separate out the cost for Scotland in doing that.

Q72 Katy Clark: But you know the demographics and the terrain in Scotland are very different. For example, I represent a number of island communities and have a very rural constituency and we know that it must be more expensive to deliver mail in those kinds of environments. So even if you do not have the data, if you do not do the accounting in that way, could you inform the Committee of the general position regarding how Scotland compares and its financial health? For example, is it more expensive to provide services in Scotland?

Jonathan Millidge: We do not break down how much it costs to provide a service in the different parts of the UK. We do have a massive undertaking there. We have 10,000 post boxes in Scotland that we collect from, for example, and 6,174 delivery routes. It is true that it is more expensive to deliver in rural areas than it is to deliver in urban areas. There are massive rural areas in Wales, for example, and also in England and Northern Ireland. So I could not give you a breakdown of what it is in Scotland. We do deliver about three times as much mail in Scotland as is posted in Scotland. So Scotland is a net importer of mail and that mail obviously then is delivered throughout the 16 postcodes that make up Scotland. But I am afraid I cannot say what the profitability of Scotland is. The universal service obligation that we deliver costs us £6.7 billion across the UK and it is profitable and we deliver in Scotland as we do elsewhere in the UK. I am afraid we do not have a breakdown of much it costs to deliver mail within Scotland.

Q73 Katy Clark: For the services it is generally accepted—and indeed the Barnett formula demonstrates it—that Scotland is a more expensive place to provide services because of the large rural areas and the fact that it has such a considerable land

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

mass. Do you think that will also be the case for Royal Mail?

Jonathan Millidge: I don't know that formula. But clearly it is 30,000 square miles, so it is a big area; and rural areas in general are more expensive to deliver to than urban areas. But I am afraid I cannot help you on that formula. It is not one I am familiar with.

Q74 Chair: Paul, you wish to supplement that.

Paul Hook: Mike, did you wish to say something?

Mike Granville: With respect to Post Office Limited, the position is that similarly we integrated across the whole of the UK. In Scotland we have just over 1,400 post offices. Of the post offices in Scotland—this is a point Paul made earlier—about two thirds of them would be classed as rural; another 10% would be seen as urban-deprived; the others urban. In terms of our economics, clearly we have Government-support funding, £1.34 billion, which I am sure this Committee has looked at in the past. It is a combination of network-subsidy funding and investment funding. If you take the network-subsidy funding for 2011–2012, that was £180 million. Is it more costly to operate in Scotland? I think perhaps the way to look at it is that it stands to reason that small, rural offices are more costly to operate and Scotland has a higher proportion of those than is the case in the rest of the UK. Similarly, as with Royal Mail, we do not separately account across different parts of the country.

Q75 Katy Clark: Would you be able after today to write to us with what information you do have on numbers of rural post offices and so on so we are working with accurate information?

Mike Granville: Absolutely. I can give you a breakdown of the post offices.

Paul Hook: We recently undertook a survey of our members and their income and we have just undertaken a Scottish cut of that data. I am happy to provide the Committee with that in writing. Some headlines there are that over the course of the last year, 4% of subpostmasters of Scotland said they had seen their pay increase, compared to 59% who said their overheads had increased and 39% who said their staff costs have increased. So they are operating in a very difficult environment. As a result, the pay that our subpostmasters in Scotland receive from Post Office Limited is just under £2000 a month from which they have to pay their outgoings. They have to pay their staff costs; they have to pay their utility bills, their rent and their rates. That results in average personal drawings—so, the money that is left for them to live on—for Scottish subpostmasters of £643 a month, equivalent to an employees' gross annual income of £7,716 a month. Most worryingly within our survey, 25% of subpostmasters in Scotland said they took no salary, no income, at all, from their post office. So essentially they are living on income from an associated retail business; they are living on a partner's income; or they are living on savings or pensions, and clearly that situation is not sustainable. I think it clearly demonstrates that the Post Office

network in Scotland is currently operating under extreme pressure.

Q76 Chair: John, did you have anything?

John Brown: Yes. I was just going to say that I hope you received a submission that came from our research department.

Chair: Yes.

John Brown: We broke down the number of post offices for you. Points 30 and 31: we indicated that there were 1,425 post office branches in Scotland and that of those branches opened in 2012; 67.6% were in rural areas; 21% in urban areas; 10.5% in deprived urban areas. Obviously as a trade union we do not organise in all the post offices. We only organise in the Crown post offices. Most of the other post offices are either individual franchises or are elements of other shops where it is very difficult for us to get (inaudible 12:14:19) cross-subsidisation in many of those offices. Also, a lot of those smaller post offices that operate as the delivery office for the rural areas. So there is a substantial amount of income coming to those subpostmasters from Royal Mail to help make sure the deliveries are made in those areas and those small post offices are not necessarily in massive outside rural areas. I can take you 10 miles from here and I can take you to three of them in the Blane Valley, in the G63 postcode area.

Q77 Chair: Can I just pick up a point that Jonathan made earlier? I am not sure if I have the figures exactly right. I think you said that basically Scotland was a huge net exporter of deliveries rather than an importer of deliveries.

Jonathan Millidge: Net importer. They deliver three times as much mail in Scotland as is posted in Scotland.

Q78 Chair: Yes. So superficially that would seem to me to mean that the cost that would be associated with the delivery would be disproportionately high and the income associated with exporting the mail would be relatively low. Am I right in saying that compared to the rest of the UK, the service is disproportionately expensive?

Jonathan Millidge: What that figure tells you is that big businesses would typically print the mail that they want distributing in Scotland elsewhere and it gets taken up to Scotland and delivered from there. We do not have a Scottish profit and loss account where the Scottish business looks at income and expenditure but whenever mail moves from one country to another country, say, mail moving from the UK to Ireland, you would look at having a negotiation with the Irish postal service about how much it would cost them to deliver the mail and we would pay them. The idea is that people receiving mail are not out of pocket from the fact that it has come from another country. They would charge that other country for the delivery of that mail.

Q79 Chair: Again, do you not think it would helpful to have some assessment of the profit and loss?

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

Jonathan Millidge: While we operate a universal service across the country I do not think it would give us any useful information to know how much it costs to deliver in one particular village versus how much it costs to deliver in another village.

Q80 Chair: I am talking about collectively, not village by village.

Jonathan Millidge: Again, at the moment it would not provide us with any useful information. Were there to be a vote in favour of independence and there to be a change in the arrangement, then that would be worth looking at and the appropriate discussions would take place at that time.

Q81 Katy Clark: I want to ask about the universal service obligation. Both the CWU and Consumer Futures have highlighted uncertainty over the status of the universal service obligation. Given that the contrast between urban and rural areas in Scotland and the fact that demographically more people live in rural areas and they have a very large land mass, is the universal service obligation financially viable for an independent Scotland or would a great deal more subsidy be required?

Robert Hammond: That would be a decision for a future Scottish Government but it does raise a lot of problems and a lot of concerns. Just following on from what we heard earlier, if an independent Scotland stayed within the European Union the requisites are that if a universal service is affordable, it is efficient and cost reflective. So therefore at the moment cost reflectivity is looked at as a UK-wide concept. If Scotland were to part from the rest of the UK, then clearly it would need to be looked at purely in Scotland. If some of the concerns that I am hearing from the Committee around the rural nature of Scotland and the cost and the worries about that were to be borne out, then clearly post could become substantially more expensive in Scotland. That in turn would trigger the already declining mail volumes and so the thing is a bit of a spiral. The less people use post, the price goes up. In some of the areas where there is not the broadband penetration that there is in other parts, these people become more and more disadvantaged. Then an independent Scotland would have to think about the quality of service and how they would interpret the European requirements regarding the universal service. Would we stay with the five days and six days for letters? Or would they try to reduce that? Certainly our own research shows broadly that consumers are up for change in terms of what is in the universal service but I have to stress that it is the rural areas that are most affected, that are most dependent on the mail and indeed on post offices. So those are the danger areas.

Q82 Katy Clark: Would you not change?

Robert Hammond: A lot of us do not rely on the mail the way that we used to. We use mobile phones; we use emails and social media for our communications. So the letters part of mail is a shrinking pot and that has been going on for years. But what we are relying upon is because we are using the internet more, we

are buying things more over the internet. So the mail, the letters, is declining; but the parcels side of it is the growth area. Royal Mail's own accounts this year showed that is up; the revenue is up; the volumes are up. Our own research in Scotland has shown that that is a growth area.

Q83 Katy Clark: I assure you that I think that if there is any reduction in service there would be outrage in my constituency anyway.

But given that most people want the universal service obligation to continue the way it is, as far as I am aware, is there any further point that anyone else on the panel would want to make in relation to how you could do that in an independent Scotland, given that there are different demographics?

John Brown: May I just add that it is not just rural areas that could seriously suffer if the USO was attacked in any way, shape or form. I am talking about major urban areas across our major cities where quite clearly if there was no USO then there would be lots of those areas that would be lucky if they were getting mail once a week. An example that you saw in London not far away when one of the competitors, TNT, was trying to deliver mail once or twice, three times a week, whatever it was, it shows what can happen in those areas. It is not just a concern particularly for the CWU of the rural areas, it is the major urban areas as well. The majority of the research, and the majority of information that is coming out of the EU is that if there is a minimum standard of five days a week, if Scotland were independent and were allowed to become a member of the European Union, then the indication is that they would expect Scotland to provide that five-day a week service and extrapolating from some of the very little information that is about, then postage costs in Scotland would be quite substantial. Of course that affects all of the online purchases immediately and once again the reflection between the rural and the urban, those are the areas that use the online services most of all, where they have access to broadband, and they would suffer terribly. There are practical examples out there of companies refusing to deliver to Scottish islands and to areas in the Highlands of Scotland and the Lowlands and the Borders. So it is a major worry for Consumer Scotland, and I am sure for Royal Mail, certainly for the Subpostmasters Federation and most particularly for us, the CWU, because it would affect the jobs of our members.

Trisha McAuley: One of the things that we would expect the Scottish Government to do is to do whatever it can to make sure that the people we have just spoken about who are going to be picking up the burden of any increased costs and any upward pressure on prices and are going to be the people who are in these communities who are the most disadvantaged, and to look at different ways of sustaining this absolutely critical lifeline service and not to just let it be an upward pressure of prices on vulnerable consumers. An independent Scotland with fiscal autonomy would be able to look at different ways of sustaining these communities and of sustaining the service in these communities. So we

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

would expect it to be very, very clear about protecting vulnerable communities and vulnerable consumers in them and to look at other ways of using the other income it has under its control to help sustain these communities.

Q84 Paul Blomfield: A brief follow-up on that discussion that takes us back to the discussion with the first panel: how far do we need to have some certainty over Scotland's future status in the European Union to resolve the questions in relation to the universal service obligation? I would welcome your views on that.

Trisha McAuley: European law is going to heavily influence branches of all this conversation in terms of the scope and the scale of the universal service obligation and whether Scotland sits within the EU will make a critical difference to this. So yes, I think certainty over that position would help.

Q85 Chair: Any other views?

John Brown: I would agree totally with what Trisha was saying. I would also say that certainty within the UK as far as our position vis à vis the EU would clearly help as well. They make a lot of fuss about the organisation of the Royal Mail and the Post Office because that is an element of the doubt as well and irrespective of the vote in 2014, if we have a vote in 2015 or 2017, whatever it could be, that would have a major impact upon the services that are provided by our members across Scotland and across the UK.

Q86 Ann McKechin: In your evidence, John, the CWU state the financial position of the post office network in Scotland is precarious and I think probably Paul's evidence has confirmed the problems, particularly in the rural areas and in deprived urban areas. I wonder what would need to change if a Scottish Government was independent. What would it need to change? Would it have to give far more money to maintain a similar level of service that we enjoy now? How would we deal with issues about computer systems, which are currently used in common across the post office network, particularly if there is a different currency, which would obviously be a huge complication? Obviously the Post Office has just announced that it is intending to open bank accounts to its customers. How do you think that could be maintained if Scotland became independent and you had post office customers that you have attracted through the door with bank accounts and then you found the deal was not there? I wonder what people's views are about the current level of service.

John Brown: Personally I think that if Scotland were to become independent then it would be incumbent upon that Scottish Government to make sure that far more government services were rolled into post offices because it would save, to a great extent, having to make a bigger financial contribution because if they gave that freedom for government services and local government services and also gave freedom to some extent for co-sharing and coterminous type buildings, then that would probably help both local authorities and the post office to ensure they continue.

Q87 Ann McKechin: Has there been much evidence of that kind so far?

John Brown: There does not seem to be too much evidence of that just now. Maybe it is just because we have been thinking outside the box and that the Federation have been thinking outside the box but Governments have not yet followed down that line. Or perhaps it is too difficult. But nobody has ever told us it is difficult, but it is certainly something that we would love to see investigated. Following on from that, broadband provision in post offices would be really helpful to a lot of people because there would be professional assistance from the staff in that post office. We have seen so many surveys just now saying that people are scared of using computers and everything else because they have never done it before. They do not know how to do it or they are scared of it or quite simply they are frightened by technology. By siting those types of elements in post offices and some of the smaller sorting offices in Royal Mail's possession then there would be professional assistance to help people access those services. More and more things are going online. One of the other departments in the UK Government has decided that everybody who wants to apply for benefits must apply in future online, which is going to have a knock-on effect on post offices. So that is the type of development that we would love to see.

Trisha McAuley: There is a lot of consumer appetite for that. Research that we have done shows a lot of appetite in Scotland for more frontline Government services in post offices.

Q88 Ann McKechin: But that would require a substantial investment to deliver that, presumably, at the start.

Trisha McAuley: Yes.

Paul Hook: Just on that substantial investment point, I do not think that is the case, with respect, Ann, necessarily. I think some of it is just about encouraging it and enabling it to happen. Post Office Limited undertook a trial that we were involved in as well, together with Sheffield City Council, looking at making more council services available through the city's post offices. The city council closed down its cash centre. As a result they saved £250,000 a year. Sheffield's post office is more financially sustainable as a result because they have more customers coming in through the door in a local and more convenient environment than having to trek into the city centre to use the cash office. I think some of it is just about joining things up and making it happen.

Ann McKechin: The will to do it.

Paul Hook: That's right.

Ann McKechin: Thanks. Mike?

Mike Granville: Just on the particular point around front-office for Government-type services, that is something that the Post office is working hard to seek to develop. Again, members of the Committee will be aware of the DVLA contract that was won recently. This was clearly a UK Government position, but that is a frame-work contract and it does create the ability for other government departments to utilise the same contractual mechanism to go forward. We are talking

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

to councils. Sheffield is a great example of where work has been done. We have been talking to councils up, down and across the UK.

I think though specifically the point you were asking around the interconnectedness of the business: yes, we are connected across the whole of the UK. Probably the way perhaps the way to look at it is that the framework within which we operate is that Post Office Limited is a separate company driven by the 2011 Postal Services Act. It was set up as a company in the public sector as part of the Postal Services Act. It has accessibility criteria, which apply across the whole of the UK, that have been determined by UK Government, originally a Labour administration and the Coalition Government has taken that forward. There is funding from the UK Government, which we have already talked about. What we are doing at the moment is a plan that goes through to 2015, which is to both maintain post offices, grow Post Office business and to invest in post offices; to try to address some of the issues that have been talked about around future sustainability of post offices. So, all that work is under way; that is the plan and the activity that is under way, to maintain the size and importance of the network. The question of what happens to all those elements should there be a referendum vote that leads to a discussion on independence, that is something that would need to be talked about after the referendum. There are quite a few elements there that would need to be picked up.

Q89 Mr Walker: If that referendum vote did take place and did have the effect of creating an independent Scotland there would need to be a model for cross-border postal services. Is there an example elsewhere in Europe or in the world that you say works well and what would you see as the main challenges in developing a model for cross-border postal services?

Robert Hammond: There are lots of models for how cross-border services work. There are some standard processes that are governed under what is called the UPU, which is the Universal Postal Union, which is a branch of the United Nations. What that does is as countries are recognised it helps to facilitate mail services between them. There are different models that are then used for negotiating the cost of handing mail over. So if a letter is posted in England and it is going, say, to France, we in England get the money for the stamp, the 88p, and we will have a negotiation with France as to how much we will be paying them to deliver the mail on our behalf. That is a kind of standard model. There are lots of different ways in which it operates between different countries. Some of it is under a standard agreement, which is called REIMS. Some of it is under what are called bi-lateral agreements between different countries. We would pay different countries different levels dependent upon their cost of delivery. A lot would depend on the price, though, that the consumer paid for this. So for example, if you live in Northern Ireland and you want to send a letter by Royal Mail to the Republic, you pay the European rate, as if it is going to France, Germany or any other European country. The

Republic of Ireland, however, has an all-Ireland rate whereby you pay exactly the same whether it is going to Northern Ireland or a different part of the Republic. That is something that I think would need to be very carefully looked at in Scotland because it has the potential of driving up the prices quite significantly. There are other arrangements between countries. I understand the Slovak and Czech Republics have an agreement. I understand some of the Benelux countries and the Nordic countries also have arrangements in place. But what we have at the moment is it looks as if Royal Mail would want to charge the European rate for post to come to Scotland. Scotland is a net importer of post; that could have quite a serious effect on the volumes and revenue that derives.

Jonathan Millidge: Can I just clarify? Royal Mail has not said that we would be charging European rates for post coming to Scotland.

Robert Hammond: No, you haven't. I am just saying if you followed the model that you use for Northern Ireland—and I take your point; if you did that—that is the effect it would have.

Q90 Mr Walker: In your written evidence on the Irish situation you pointed out that as a result there are a lot of people crossing the border to post letters. Presumably that would have quite a big knock-on effect on the sustainability of border post offices, on the Scottish side of the border.

Paul Hook: Yes. In the Northern Ireland instance, I was talking to one of our members, a subpostmaster in Crossmaglen, obviously just on the UK side of the border with the Republic, about this situation, which Consumer Futures described in the written submission. I think from his perspective it is very much a case of swings and roundabouts. I think it is quite inconvenient from a customer perspective, having to cross the border in order to undertake certain transactions more cheaply than others. But from the subpostmaster's perspective, what he loses out on in terms of people in Northern Ireland going across the border to the south to post, he gains by people from the south coming north to his post office to post to Great Britain. Therefore there is no reason to believe that a situation between Scotland and the rest of the UK would automatically be any different.

Mr Walker: Although if you end up with a different pricing structure—

Paul Hook: Yes. But if there was a real determination on both sides to address those issues in advance, then that need not be the case.

Q91 Mr Walker: But how would you suggest they go about addressing those issues?

Paul Hook: I could not aspire to such negotiations. I don't know.

Q92 Mr Walker: Does anyone want to make any suggestions for if there is a cross-border, how do you avoid that divergence in terms of pricing, in terms of encouraging customers to game the system? Are there any mechanisms for doing that?

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

Robert Hammond: I think if you have a uniform rate, quite honestly, our research in Northern Ireland found that a lot of people did not have a clue how much the postage was when they were sending things to the Republic, and indeed most of the time they were sticking on an ordinary first class stamp thinking that would suffice and I dare say in many cases it does suffice and the mail gets there. But I think if you do have a uniform rate it cuts out all that uncertainty that could exist where traditionally you have just had a one-price-goes-anywhere system. So that would be my recommendation.

Q93 Mr Walker: Royal Mail, you said, you have to wait and see the outcome of any referendum before you can answer this, but given the point that Caroline mentioned that there are plans for Royal Mail to be given access to private sector funding over the coming years and given the political differences north of the border and south of the border potentially, have you looked at the possibility that you could end up with the Royal Mail being renationalised in an independent Scotland, while a private company is in existence south of the border?

Jonathan Millidge: No, we have not looked at that. We are going through the process at the moment of getting capital into the company. But no, we have not looked at the possibility of renationalisation.

John Brown: I do think in answer to the point that had been raised earlier that there is a possibility for a universal service price if Scotland were to become independent and they were to ask Royal Mail to be the franchisee to deliver the service. That would be something that governments would have to negotiate and sort something out about. But if the will was there to deliver, it could be delivered, but Royal Mail would ask a heavy price of the Scottish Government to franchise the service, given the quite clear variants there are between deliveries in Scotland and deliveries in the rest of the UK. Even though there are large rural areas in Northern Ireland and Wales and in the south west of England, Scotland does have the majority of them and I think there would be a heavier price. But there is a possibility there. People will have to think imaginatively, I suspect. It is just surprising that a company like Royal Mail has not at least made some provisional movements towards Scottish Government to talk about what could possibly happen given that there is the best part of 12,000 staff employed by Royal Mail in Scotland, close to 11,000 of whom we organise. I have talked about that, but c'est la vie.

Trisha McAuley: One thing that may help all the issues we have talked about is if the Scottish Government thought about maintaining a single market. I don't know what their thoughts are in terms of post, but they have already been quite clear publicly that with regard to energy, that is what they plan to do. They will obviously have to negotiate that with the UK Government and the devil of that will be in the detail as to how regulation would work and how that whole system would work across the UK. But it could be something that they may be considering in terms of post.

Q94 Mike Crockart: Westminster at the moment is looking at a Pensions Bill and my question is about the pensions implications of Royal Mail and Post Office in the event of independence. If Post Office and Royal Mail did become separate organisations in Scotland, what is your view of where the pension liabilities would lie for those, because there would be significant pension liabilities for significant numbers of staff? What would the implications be for that?

Jonathan Millidge: At the moment our pension scheme is fully funded. Last year the UK Government took on the historic liabilities and assets that were in the scheme. So all of the service up until 31 March 2012 is backed by the Government. Then there is the Royal Mail Pension Plan, which covers the costs of service being built up going forward. That is fully funded so I do not see any big complications arising from that scheme.

Mike Granville: The Post Office situation is very similar in terms of historic position and the implementation of the Postal Services Act. The position up to April 2012 is the same as Royal Mail. Going forward the Post Office scheme is a separate scheme linked to the Royal Mail plan. So it is exactly the same situation.

Q95 Mike Crockart: So no worries, no concerns? Is that the position of the CWU?

John Brown: I would certainly not agree to that.

Mike Crockart: I didn't think you would!

John Brown: Of course a lot of that would be subject to any negotiations but quite clearly if you have a separate Post Office and separate Royal Mail bucket, whatever you wish to call it, Scottish Mail, whatever else, post-referendum, if favourable, there would be serious knock-on issues for our membership. Not just for the members just now but those who have retired; those who have taken retirement in the last few years, whose life could be seriously affected if the pensions do not continue as is. We are awaiting and looking forward to seeing the Scottish Government Yes Scotland campaign come out with some definitive answers on the questions you have on pensions because there are not just people from our industry but people from lots of industries whose pensions are usually late and who are seriously looking for answers from the Scottish Government on this and what their future provision is on it and in many cases that will decide how they cast their vote. But we need to know and we need to know (inaudible 12:43:39) what their proposals are if Scotland were to be separate insofar as the pensions of our existing and current pensioner members are. There are probably in the region of 4,000 to 5,000, maybe even more, retired Royal Mail and Post Office people who currently benefit from the Royal Mail pension plan and former Post Office pension plan. So it is not just the live members just now, it is the members out there and I can tell you my retired members' committee just last month were getting rather uppity about it because they were not any answers from anywhere.

17 June 2013 Trisha McAuley, Robert Hammond, John Brown, Paul Hook,
Jonathan Millidge and Mike Granville

Q96 Mike Crockart: What discussions have you had with the Scottish Government on the management of Royal Mail or Post Office?

John Brown: Scottish Government have said they are amenable to talks but they have not made any connection yet at all to talks about it. We would love to sit down with them and find out what their plans are. Likewise Yes Scotland and likewise the Better Together Campaign as well because if the vote is no, we need to know what the provisions and proposals are in the future for Scotland, whether it is privatising in Royal Mail's case; how Post Office is going to continue; and what type of services are going to

continue post 2015, the next Westminster election and beyond that.

Q97 Chair: I think that concludes our questions. Can I thank everybody and repeat what I have said to the previous panellists? If you feel that you wish to add anything to the answers that you have given already, please submit them in supplementary written evidence. Equally, if we feel there are questions arising out of the evidence that you have given us that we would require further clarification on, then we will write to you and hope for a response

Thank you very much. That has been incredibly helpful. Thank you.

Tuesday 18 June 2013

Members present:

Mr Adrian Bailey (Chair)

Paul Blomfield
Katy Clark
Mike Crockart

Ann McKechin
Mr Robin Walker

Examination of Witnesses

Witnesses: **David Watt**, Executive Director, Institute of Directors, Scotland, and **Professor David Bell**, Professor of Economics, gave evidence.

Q98 Chair: Good morning, and can I start by just reminding everybody something that I forgot to do earlier, and that is when you speak, press the button on the microphone in front of you; and of course on the conclusion of your comment, you should press it again to switch off, otherwise any unauthorised or back of the hand comments may be recorded for posterity.

Can I thank you both for agreeing to be witnesses at our inquiry and welcome you here? I think it is fair to say it is certainly the most magnificent venue that I have held a Select Committee in—I cannot speak for the others; but you are very welcome. Could I just ask you, for voice transcription purposes, to introduce yourselves, starting with you, David?

David Watt: Shall I go first, then?

Chair: We will make it David Watt.

David Watt: I will go first; it is David Watt. Yes, this is going to cause a bit of confusion, but he is the one with the brains. I am David Watt from the Institute of Directors. Good morning.

Professor Bell: I am David Bell from the University of Stirling.

Q99 Chair: I realise I assumed your Christian name was Professor.

Can I open with a fairly general question? In evidence to the House of Lords Select Committee on this issue, John Cridland, the Director General of the CBI said, and I quote, “Uncertainty is the biggest killer for investment”. In your opinion, what are the key areas of uncertainty that need to be addressed in advance of this referendum?

David Watt: If I can kick off just with a few thoughts on that front, uncertainty is not something that business ever welcomes, but we all live in a fairly uncertain world. I think truthfully at the moment one of the biggest uncertainties that business faces is in relation to the euro in Europe, and that is causing, bluntly, more immediate concerns, I have to say, for investment both inside and outside of Scotland at the moment. But absolutely in terms of issues around defence, for example, some of the major industries in Scotland have a very close connection with the rest of the United Kingdom and then international markets tied to that. A company such as Babcock in the defence industry is a classic example of that. That is also true in financial services. We have international links into Europe, into London and well beyond that as well; massive investments in the Middle and Far East. So, there is industry there where that is an issue.

We have also highlighted issues around connectivity, transport and energy to all the campaigns and political parties involved.

Professor Bell: I think we are getting into the area of the known unknowns and the unknown non-knowns here. Will I carry on?

Chair: Yes, if we can just stop for a moment. Is there a problem somewhere? I am not quite sure what that noise was. Go ahead, and we will see what happens.

Professor Bell: There are a number of areas that are being discussed quite closely at the moment, but for which I suspect there will be no clear answers prior to the referendum, one of the key ones being what would happen around the currency should Scotland become independent. There is an issue around EU membership, which applies both north and south of the border, I think, of where that might be going and what status Scotland might have potentially post-independence.

Linked to the currency issue are two further issues, which are the fiscal position of a post-independent Scotland. Scotland has a somewhat lower fiscal deficit than the UK as a whole at the moment if one allows for the effect of North Sea oil revenues, but nevertheless, it is still quite a considerable fiscal deficit and the question is what would happen in relation to adjustment for that or what might have to happen in relation to that.

Chair: Sorry, we have to suspend briefly, because it appears that we are not being recorded; a slight technical hitch. As soon as we are confident that we are being recorded, I will invite you, David Watt, to repeat what you said. I am sorry about that.

Professor Bell, you were in the middle of speaking, so if you would just like to repeat yours and then I will go back to you, David.

Professor Bell: I was discussing the potential post-independence fiscal situation. So, as I indicated, Scotland has less of a deficit than does the UK as a whole, if one takes into account what is called the geographical share of North Sea oil revenues. Nevertheless, it still has a fiscal deficit at the moment of over 5% of GDP, and one would expect there would have to be some plan for a reduction of that going from the medium to the long-term at least. There is the question of debt, which is an uncertainty, and how debt might be allocated post-independence, especially since the OBR forecast is that UK debt will be around £1.6 trillion by 2017/18, which might be the earliest time that one might expect independence to occur. Population share would be one obvious way of

18 June 2013 David Watt and Professor David Bell

allocating that debt. Scotland would therefore take around 8.4%, I think, of that total debt, and there are questions around the mechanisms whereby there could be transfer of debt, which certainly are causes of uncertainty, but probably not for business.

I suspect, as David may indicate, key issues will be regulation, particularly for financial services, but it also spreads into energy, and it spreads into competition, right across the spectrum. How differently will the business sector be regulated post-independence? Do you go for the franchise solution, which is just to say, “We will basically follow whatever the rest of the UK does”? That is one possible option, but I think that remains to be seen. Across the whole spectrum of regulation, that may become more apparent when the White Paper is published in November.

Q100 Chair: Just before I go back to David Watt, may I just pick up your comment about the fiscal deficit? If you could just very briefly and simply explain how that has been computed, because my understanding is that it is very difficult to assess the proportion of our total tax revenue that comes from Scotland, so logically I would have thought it was very difficult then to calculate the fiscal deficit. But if you could enlighten me, I would be grateful.

Professor Bell: Yes. So, on the tax revenue side, mostly it is done by location or where people are physically located for the majority of their work, and indeed, HMRC next year are going to have to tell people whether they are Scottish for tax purposes or not, because the Scotland Act 2012 allows Scotland powers over income tax. Therefore there has to be some decision as to whether you are eligible for this tax or not, and HMRC does have that work under way at the minute.

On income tax, I think the statistics are relatively robust, but it is certainly true that as in the rest of the UK, a very large proportion of the income tax revenues come from a very small number of people, so the possibility of a small number of people moving can have quite a big effect on revenues. On things like corporation tax, there probably is more room for error, and I think it is done based on employment shares. You might say, “That is not really the way in which corporation tax might be”—well, it is certainly not the way that Amazon’s corporation tax is, for example, allocated.

After that, most of the taxes—National Insurance is fairly straightforward, and then there is debate about the share of North Sea oil revenues. Revenues are both volatile and for a Scottish Exchequer would be quite important. They come second to income tax as the major source of revenue, on the assumption that there would be a legal agreement that around 90% of the oil fields would be classed as being in Scottish waters. Having said that, going back to the fiscal deficit, if you add up income tax and North Sea oil revenues together, you still do not come to the bill for social protection in Scotland, and that is one of the issues around the fiscal deficit.

Another aspect of the fiscal deficit though is that there are some parts of expenditure that cannot be allocated specifically to Scotland and cannot be allocated

specifically to anywhere, like debt interest. You can allocate health spending to Scotland, because you know exactly what is happening, but not debt interest. For example, defence is classed as something that benefits all of the people of the UK equally, and therefore you allocate a population share of defence spending to Scotland. Post-independence, a Scottish Government might choose not to spend as much on defence as the current share would imply, which is just over £3 billion, and that would be one way around the 5% or whatever the deficit might be. I suspect it will be lower by the time if independence were to occur, just because the trajectory on deficits for the UK as a whole has been slowly downwards; not as quickly as the Government would like, but it has been slowly downwards.

Chair: Thank you. David, I will just ask you to summarise what you said before.

David Watt: Mr Chairman, very briefly just to say that the point I made was that uncertainty and lack of clarity is something that business does not find welcome, that is for sure. I think in certain industries in particular there is a potential significant impact of independence, and these would be industries like financial services, defence, and connectivity around broadband and the transport connectivity as well. So, there are issues there, and in industries that are particularly important and also require a good bit of long-term planning. So, these industries certainly want to be clear about where we are, although I did also make the point about a real issue around about the European market; the European Union is certainly something that is another significant cause for uncertainty in business at present.

Professor Bell: May I just add one point of information in relation to trade? Scotland’s last recorded exports were around £43 billion. £25 billion went to the rest of the UK, so the UK is the biggest trading partner. The rest of the world comes in a bit lower, but our UK is by far the bigger trading bloc as far as Scotland is concerned.

Q101 Chair: What about imports? Have you a figure for those?

Professor Bell: I don’t have them offhand. I think the current situation is that the rest of the UK runs a trade surplus with Scotland, so Scotland is in deficit to the rest of the UK, but Scotland has a surplus with the rest of the world; that is the way it works.

Q102 Katy Clark: How important do you think it is to have clarity over whether an independent Scotland would remain part of the European Union or would have to reapply?

David Watt: I think it would be very helpful to understand the UK and Scotland’s long-term position with the European Union, but to be honest with you, if you look at the European Union—and I constantly explain this to people in business—most of the decisions are political decisions, they are not based even on the rules, because the rules seem to be bent to accommodate other countries who don’t quite meet their fiscal targets or fiscal arrangements. So, it is very difficult to forecast. Equally, one could argue that one or two countries have a very vested interest in not

allowing any part of their union to become independent, so there are issues there, but certainly the European Union is significantly important. A point David made about exports—if you look at our exports externally, which are about £25 million, I think it is—or £24.9 million the latest count said—America was by far and away the biggest single nation, but outside of that, I think nine out of the top 10 were countries within the European Union that we export to.

Professor Bell: I do not have much to add to what David said, but if we come to talk about higher education, there are issues around the European Union and status there that probably are worth exploring, but I think it is going to be difficult—because the decisions are essentially political—to have some kind of absolutely clear statement prior to the referendum.

Q103 Katy Clark: If Scotland had to reapply as an independent country, what impact do you think that would have?

David Watt: The answer really depends on the transition arrangements, and I don't think there is a comparable example from the past. There have obviously been other states like Czechoslovakia that have split, but then that happened before the EU, so it is difficult to make a precise comparison. Indeed, if you ask people around the European Union, in Germany and Ireland you get different answers and things, and regularly quoted in newspapers in the last month really in particular, different opinions from different European politicians saying, "Yes, fine, no problem. You would remain in and then we will renegotiate", and others saying, "No, that is not possible".

So, I think it is really difficult to forecast and, equally, there are assertions being made that it would be automatic and I do not think that is going to happen either, given there is a queue of countries waiting to get it in as it is. The view that we are already there and they would not throw us out, I don't really know what that means, to be honest with you, because Scotland would be a separate country and wouldn't automatically get back in. One would hope that there would be sympathetic transition arrangements, given that we are currently a part of the United Kingdom and part of Europe, but there is no guarantee of that, and, as I say, the last people to forecast what politicians are going to do are businesspeople.

Professor Bell: I would just add to that, one cannot know, but it is important to know whether—or it would be good to know—if Scotland could have the same exceptions as the UK does from things like Schengen, but I am afraid that is one of the unknowables, it seems to me.

Chair: Interestingly, a Catalonian MEP has just made some public observations that France and Spain would not okay it, presumably because it would set a precedent for regions that might secede from them, but I am not quite sure what weight that has in the total debate.

Q104 Ann McKechnin: Good morning. Yesterday we took evidence from Business for Scotland, who have argued that independence would, and I quote from them, "Act as a catalyst for Scottish people to become

more entrepreneurial, confident, successful, ambitious and international in their outlook". When we took evidence from their representative yesterday, I asked him whether he would be seeking a lower tax type of economy or would he be happier with perhaps higher taxes and greater spend on the public sector. He seemed to be indifferent to whichever option might be chosen, because he said if it was chosen by Scottish people, then it would be the better solution. I just wondered what you thought were the opportunities for business if Scotland was independent and had greater control over tax and economic levers?

David Watt: That is an exceptionally good question, and I think that business is still to be convinced of a significant number of practical opportunities and differences. I suppose all businesses like vision and there is a vision of a new nirvana of Scotland sort of thing that I think everybody buys into. It is very interesting that Jim McColl from Clyde Blowers has been quite outspoken in supporting independence, and some interesting people like Crawford Beveridge and Robert Crawford, who used to run our Enterprise Agency in Scotland. All three of them share a view that almost the only way to rekindle Scotland's entrepreneurial spirit is to do so as an independent nation. I don't think that necessarily follows, but I certainly think there is no question but that we have a bit of a dependency culture at entrepreneurial levels, with respect to friends or to members who are largely based outside Scotland.

This is, as you sit in it, the most entrepreneurial country the world has ever seen, or it used to be, and we would like to see it back being that. The question you have put very wisely is whether independence makes all that much difference. I think it could, but there needs to be a number of very precise and concrete measures proposed to convince business that that would happen. There is certainly no question but that we have fallen behind where we used to be. Our heritage is enormous and the potential of our young people is enormous, but there is a blocking point. Is that caused by being part of the United Kingdom? I am not totally convinced of that. Equally, I think there is no question but that, for example—and it is interesting your Committee is here—even some of the departmental initiatives by BIS are not springing to life in Scotland in the way they are in certain regions of England. So, there is some disconnect there perhaps in terms of governmental impetus and help and support around about seed enterprise initiatives and things like that that don't seem to go out to the same extent in Scotland. So, there are some issues there, and yes, I have no doubt we could do things better than we do.

Would the governance of the country be the key deciding factor? I am not totally convinced. I wait with interest to see some very practical measures, and I suspect the point you make is—have we had a list of five or 10 completely different new initiatives that would come through? The answer is not yet. Maybe we will get them in the months to come, and I think when we met with the Yes campaign they were saying some of these issues and ideas were under further development, so we wait with interest to see if

18 June 2013 David Watt and Professor David Bell

something comes out. There is no magic bullet yet that has been shown to us in any way.

Professor Bell: All I would add to what David has said essentially is that it is around timescale. It is important to bear in mind that, for example, Ireland took quite a long time before it found its entrepreneurial wings and then they were unfortunately clipped because they went a little bit too far with the financial sector, but it did—particularly during the 1990s—grow very strongly. One wonders whether that is very context-specific, that time, that place. There was a niche there for an English-speaking country with close links to the US to provide an outpost in Europe, but there are certainly areas around taxation where you might think that things could possibly aid the entrepreneurial spirit a little bit more effectively. We discussed air passenger duty before we came in and what effect that has on some of the airports in Scotland, and also of course the north of England. A lot of what can be said in respect of Scotland could also be said in respect of the north of England.

Q105 Ann McKechnin: Can I just press you on one point? A lot of the larger employers in this country have their head offices in other parts of the United Kingdom or internationally. Is there a critical mass of business expertise in Scotland to create a successful business environment, because you, David Watt, said that there is a huge amount of interconnectedness in the way that businesses have grown up, because they have grown up within a very stable UK market and there still is a huge concentration in the south-east and London. So, I just wondered to what extent Scotland could successfully have the level of expertise if it was on its own?

David Watt: That is also a very interesting question, for a number of reasons I will illustrate, but I think the answer to that is I am not quite so convinced that borders make any difference any more, for example, within Europe or even within the world. I was talking, for example, to somebody from Aberdeen Asset Management last week, and about half of their investments are in Singapore. They are a fantastically successful company, listed on the London stock market, so these barriers are slightly artificial now.

You make another interesting point. It has not been scientifically researched, but if you look around Scotland and look at the people who are running many of the corporates in Scotland, and the biggest successful companies in Scotland listed on the stock market, for example, very few of them are run by Scots. Yet if you look outside Scotland into England and further afield, you will find exactly the opposite situation. So, I think you could argue quite strongly that an independent flourishing Scotland would attract some of these individuals back to run their businesses in Scotland, and there is an interesting question as to why they have left. Is it too easy to leave, too attractive to leave? Could we build Edinburgh into a wage level nearer London if it was an independent Scotland? I am not totally convinced of that, but there are some really interesting arguments.

Norway, which went independent quite a number of years ago, is extremely successful and probably more

entrepreneurial than it has ever been, fortunately through oil and gas and energy. It is now a worldwide brand, and a very small country. So, there are opportunities that could be made, but as I say, there is a really strange sort of dichotomy with this balance of Scots inside and outside. Scots seem to be valued more outside Scotland than they are inside Scotland. It is a national characteristic, as you are well aware. But I do genuinely have a real concern over this entrepreneurial spirit that we have lost, and whatever we have post the referendum, we need to do something about that in this country. We really do need to do something about it. Our view very clearly is that the state is growing too big and business is not growing fast enough in terms of jobs, employment and the future economy of this country, whether it is part of the UK or not.

Chair: It is one of the peculiarities about international perceptions. I find the English are more valued outside England, but not in Scotland.

Q106 Paul Blomfield: I want to turn to issues in relation to banking, and one of the issues that has concerned us as a Committee, and indeed the Government, is the problems with bank lending to business. One of the concerns is the lack of competition in the sector in the UK overall. Potentially that is writ large in Scotland, with the dominance of Scottish banking from HBOS and RBS. I wonder what thoughts you had on how that dominance would affect bank lending to business in an independent Scotland?

David Watt: I will just give a few thoughts, and David might have some facts and figures as well. Absolutely, the impact of the demise of RBS and HBOS in Scotland has been massive in terms of business in a variety of ways, but particularly, for example, if we look at HBOS, which had massive investments in a whole lot of property and other arrangements, bizarrely ended up owning a half share of a golf club. I have never really understood how a bank could do that, but there we go—although it is a very fine golf club. So, there were really strange arrangements.

Five, six or seven years ago—this is the thing that is really most difficult for my members and other people in business—banks would have been knocking at your door and throwing money at you on fairly attractive terms, in all honesty, and now they will not give you any money, even if you knock on their door for a long time, and the terms are very demanding. So, banks are not very popular, generally speaking, and they are quite difficult to deal with. We all understand why, because we all want them to build their balance sheets. So, they have, truthfully, whether they like it or not, less money to give away, and they are trying to do that at the same time as we in business want to get more money. They are more demanding and that is probably rightly so. They were involved in deals—I have just mentioned one—that probably they should never have been in. But that is the general situation. Specifically, in Scotland, we are very strong advocates of a bigger, more competitive market. It is better for retail customers; it is better for business. I, personally, in my effort not to disadvantage the banks, do genuinely send members to other banks when they

come and complain about one bank. I always say, "Well, here are four or five other people you can go and speak to. Go and speak to the Clydesdales and HSBCs and the Barclays and see if they will help create that competition. I will not say they will necessarily deal with you, but it is better". So, we must break out of that model in any case; independence or not, it has to be broken. I think the more competition the better, although truthfully, if you look, probably there are one or two of the banks that might even be up for sale potentially, but buying a European bank is not anything anybody is really going to do at the moment, I have to tell you.

Professor Bell: This comes back to the currency issue again. It seems to me that it will be possibly more difficult just because of transaction costs, I guess, for banks. That will be maybe a minor barrier to them operating across the UK. It seems to me that if Scotland was to become part of a sterling zone, you might expect banks from England to operate in Scotland and to continue to operate in Scotland and vice versa. The key question though is this thing about whether the dictum that banks may operate internationally but they die nationally would still apply, which would mean that the Scottish Government would have to bear the potential cost of any difficulties, in the way of course that the Irish Government bore the costs associated with the demise of the Anglo Irish Bank.

The message from that is that if Scotland were to become independent and to promote competition, it would have to pay a great deal of attention to the way in which the financial sector was regulated. Of course, this does matter too for those companies in Scotland that might wish to continue to trade in England, because one wouldn't want massively different regulation for someone in England buying a pension from a Scottish pension provider from that which they might expect if they bought it from an English pension provider. If there is a big disconnect there, there is going to be a competitive advantage one way or the other, so I think these issues do exercise the financial sector to a considerable extent. There has been some discussion that Scotland would just have the same—again, the franchise solution—regulation as in the rest of the UK.

Q107 Paul Blomfield: Thanks very much, and I think we will be coming back to the question of regulation in subsequent questions. I just wondered if I could push a little bit more on this question of competition in the banking sector, because you suggested that there is a need for more competition. How do you think that would be achieved, recognising some of the concerns that have been expressed, within an independent Scotland?

David Watt: I think the answer is it is pretty difficult to do even at the moment, as you are probably well aware, and Lloyds have been trying to sell off or have been forced to sell off some of their branches. As I said to you, nobody wants to buy them. To be fair though, Edinburgh has—despite these issues, one could argue, of uncertainty—continued to attract significant investment of funds internationally. I find it a great source of pride that we administer the

Canadian Teachers' Pension Fund in the city and stuff like that as well, so we do a lot of amazing stuff, and it continues to grow. You have players like Virgin Money and Tesco Bank who have established in the recent past as well.

It is very unfortunate, to put it mildly, that Co-op is going through problems, and I think we need to look to strengthen these smaller nascent banks as well as one of the ways to do it. I do think Tesco, who don't tend to do things on a small scale or to do them badly, will come to the marketplace more aggressively and as time goes on as well, and I think the same is also true of Virgin Money, which is gradually growing. So, there are some lights on the horizon. As I say, it is a difficult marketplace at the moment, because banks across the world literally are not a place that many people, even shareholders, want to invest massive amounts of money in. So, it is a challenge, but I think it can be done. As I say, it is difficult enough even in the UK situation.

It would not probably, truthfully, be a great deal more difficult in Scotland. The customer base would be smaller, but then again most banks setting up, regardless of some sort of border, would still be trading in all parts of the UK. They are not going to set up to trade in a five-million-person nation and very few do that as well. We also have to face the fact that, as with a very successful bank like first direct, so much banking now is done online that to some degree where a bank is headquartered is less relevant perhaps than it was a few years ago. That is true of many businesses and certainly the retail side of business. I am sure we all regularly buy apps for our iPads from America at the press of a button.

Professor Bell: I pretty much agree with David. The Edinburgh financial sector seems to have almost a critical mass that would make it attractive as a location, irrespective of the constitutional situation. The number of corporate headquarters in Edinburgh, or in Scotland, has declined fairly significantly over the last couple of decades, but the financial sector has been pretty robust, and that alone, with the skills that are available in Edinburgh, gives it a comparative advantage that should—so long as there are no significant regulatory disasters—allow it to continue, no matter what the constitutional situation.

Q108 Paul Blomfield: What barriers do you think there would be to business raising finance or capital from the rest of the UK in an independent Scotland?

David Watt: Apart from potentially additional cost, there is probably not really a great deal. The rather interesting thing—perhaps I should have mentioned it earlier—about the banks, and one of the real challenges in Scotland as well, is that all the Irish banks, for example, and a number of other foreign banks, who had significant business partnerships in Scotland, just disappeared when the recession came along. They all went back home and basically took their money and started to finish all the arrangements they had in Scotland, and stopped them pretty sharply. In large part they have done that. There is a minimal presence of Allied Irish still in Glasgow, but it is pretty sparse.

 18 June 2013 David Watt and Professor David Bell

There is still a significant amount of foreign investment and access to capital internationally as well. Jim McColl always says, “I already operate in 27 countries. If Scotland becomes the 28th does that really make any difference?” To some degree, businesses already are trading internationally and meeting all the costs of trading internationally. There is the issue potentially of increased cost, but I do not think it will massively increase complexity, and I do not think a bank in London in an independent Scotland would not necessarily give me money to invest in Aberdeen. I don’t think it works like that. The bank would look at the business case, wherever the base is.

Professor Bell: It seems to me it is the business case that matters. We have huge investment going on in the North Sea at the moment by lots of foreign companies, so they are not having any difficulty accessing capital. I cannot imagine they would have difficulty in a different constitutional situation.

Q109 Mike Crockart: You have talked a lot already, in passing at least, about regulation and regulatory uncertainty. My question relates to that topic, and particularly whether you are aware of any work that has been done on what the extra costs might be of setting up new business financial institutions, such as the Financial Conduct Authority, the Pensions Regulator and the Competition Commission. There are numerous regulators and institutions that would need to be set up. Putting aside the franchise model for a moment, which I will come back to, is there any feeling for what the extra costs would be to Scotland to set those up?

David Watt: Perhaps again I will leave the learned gentleman on my left to fill in any figures, if there are some available. Interestingly, we had a joint conference last week with Scottish Financial Enterprise, AFSB and other business organisations, and we involved a number of people, for example, from Northern Ireland to ask them about trading across borders. Certainly the VAT complication, if you like, and the potential cost—there is additional cost in that. I do not know if anybody has ever quantified it—they certainly have not in that particular setting—but it did increase the complexity of dealing across borders and it increases the costs. So, it is probably somewhat difficult to put a figure on it until you know the sort of regulation you are facing. Whether Scotland lifted the same regulatory regime, it would certainly be very similar to that in the rest of the United Kingdom. Now, that still means there is additional cost because it would have to be established, and if we had the equivalent of an FSE in Scotland, you would have the cost of that and that would be met by the industry, ultimately, so absolutely.

The Scottish Government has an overall desire to set up a regulatory body that would look after all regulation in and outside of the financial services industry, but to some extent the Scottish Government does a lot of that regulation over environment, over the Scottish Environment Protection Agency and through SNH and various others, so these sort of environmental areas are really a devolved function

already. Bringing these bodies together would probably be quite welcomed. In fact, the Scottish Parliament tomorrow are talking about that as well. So, that area of regulation could be relatively easily brought together, but there is no question, especially as an EU member, but that you are compelled to have your own independent regulatory authority. You would have to have it. There would be an additional cost to business, but as I say, to be fair, businesses are already meeting that cost in the countries they already trade in and complying with these wherever they are, and obviously HSB trades worldwide and meets all these regulatory costs on all occasions in any case.

Professor Bell: I do not know of detailed work on these costs, but we do have in a sense not an ideal example, but a parallel at least in that the Scottish Government is just in the process of setting up Revenue Scotland, which will be collecting the landfill tax and the replacement for stamp duty. It is also paying additionally to HMRC for the additional bureaucracy associated with the Scottish rate of income tax, I think the total of these two—although I might come back to you with some more precise figures—is around £100 million.

Q110 Mike Crockart: If I could return to what you have described as the franchise model, is it feasible, do you think, for an independent Scotland to share the current institutions with the remainder of the UK, or to do that would it need to accept that all regulation would mirror the regulation that applies in residual UK?

David Watt: I think it would imply that perhaps the majority shareholder, in other words, the rest of the UK, England perhaps would have more say if the regulatory bodies were shared. I think that is inevitable. The stakeholders would be larger and smaller, so I think they would have that balance of input. I think also, having said that, to set it in context, that many of the regulations we are talking about are—first, look at the G8 today. I think, to be honest with you, we are going to become increasingly global and they are certainly European as well, so I think there is a massive input from the European Union—assuming the UK stays in the European Union—that has a massive effect on that as well.

So, Scotland has a limited amount of wriggle room in what it can do if it wishes to go into the EU, or remain in the EU they would say. So, it is quite clearly dictated they must have their separate regulator, so there is no wriggle room with that. That is a fait accompli if you want to join the EU. It would need to be independent. It would not be possible to be governed by another state. That is not acceptable to the EU. To be honest with you, as I said earlier, I think even if Scotland were setting up let’s call it a Scottish Financial Services Agency, it is going to adopt the relatively good practice that has been seen in the UK and maybe avoid some of the bad practice we have seen as well. So, it is going to mirror it, at least in the short term, until many other things have bedded down and it develops. That particular issue, I don’t see the franchise model working, because I do not think the EU would allow the franchise model. It could work in other areas, it could work around about

transport and train operators and things, and we could have partnership arrangement on that basis. I just do not think it is EU allowable in financial services.

Professor Bell: I think you could just mirror the rest of the UK at least in some areas of regulation. I think Ireland did, to some extent, mirror what the UK has done in the past, and that I guess does not need a formal agreement. So, the franchise arrangement would need some kind of agreement and there would be a question of bargaining power and, as David says, Scotland would be by far the smaller of the two parties in the bargain. There are areas where just mirroring with no clear connection would be obviously very difficult, and I think energy or policy around decarbonising the RUK and Scottish economies could not be done without some kind of formal interaction between the two parties, particularly since the costs of renewables are borne by all electricity bill-payers, but Scotland provides a larger share of the renewables than does the rest of the UK.

Q111 Mr Walker: Professor Bell has already commented on the fact that over the last decade, Scotland has seen a decline in the number of corporate headquarters. I just wonder if you could both comment on whether an independent Scotland would be more or less likely to attract headquarters based in Scotland?

David Watt: I wish I had that crystal ball, to be honest with you. That is partly a function of globalisation and the attraction of businesses to the major capitals of the world, not just a reflection on the Scottish economy, and also companies growing really through acquisition. So, it is a natural business progression. I would love to see that trend reversed, but truthfully, I am not sure it is reversible; it may be. There is a fantastic but ancient book now called the Global Paradox by John Naisbitt, which talks about the strengths of the smaller unit as we globalise. I am not sure that has happened. The interesting thing that has happened and is happening—I always remind people that Google started with two guys in a garage—is that it is not that complicated literally to build a world power from Inverness now, whereas a few years ago, that would have been completely and utterly impossible. So, I think there are opportunities that have never existed before, and I would love to see things like that happening. But in general terms, I don't think it is realistic.

Even in the financial services, we have lost a lot of the ultimate power of a number of our significant insurance companies, for example, who have gone out of Scotland, in some cases out of the UK. There is a constant issue, for example, that is going on, rightly so, about how successful the whisky industry is. It is doing enormously well and growing by the minute, but a significant amount of those earnings are going outside Scotland certainly, and some of it outside of the UK. I think that is an international trend. There is a conceivable argument that being an independent country is slightly more attractive for headquartering companies, particularly if you can do an Ireland and really lower corporation tax. However, there is a great debate I have had with a number of learned people about whether that means jobs necessarily. It can just

mean almost a postal address or an office with one or two people, which is the company headquarters, in theory, for tax purposes while the businesses are around the world. I know that is something that post offices generally are addressing literally as we speak in Northern Ireland at the moment.

It is difficult to see that trend reversing, but I would love to see that happening. You could argue that if I thought that would happen in Scotland tomorrow through independence I would probably be voting for it. Although I am not saying I am and I am not saying I am not. I am not even going to tell my wife how I am going to vote.

Q112 Mr Walker: Professor Bell, did you want to add anything on that?

Professor Bell: I think I subscribe to a certain extent to this notion of the global cities; that headquarters, industry in general, business services, are increasingly being attracted to major cities in the world rather than to countries. You have to have a certain amount of critical mass. You have to have a certain quality of life in these cities. Edinburgh is probably Scotland's best candidate for being part of that network, but clearly London is Europe's global city and, of course, proximity to London is not necessarily, in that sense, therefore a good thing. However, as David says and in addition, it may be true that having the headquarters per se is not necessarily that important because, although Edinburgh may have lost a lot of key decision-making, as I said earlier, it does have a critical mass of skills in financial services. Therefore, the level of employment in financial services, jobs on the ground, is still reasonably good.

Again, on the whisky industry, which is thought to be one of Scotland's major industries, in terms of the exports, yes, that is absolutely true. In terms of employment, there is not all that much employment in the whisky sector. The value-added is further up the supply chain. These exports would not generate the same level of employment and basically the level of income within Scotland, that, for example, with the same level of exports the higher education sector would generate.

Q113 Mr Walker: If I may just follow up on the exports point, Scotland has done well in terms of both exports and inward investment over the last decade and that is an area where it has, at the moment, access to the UK's diplomatic network, UKTI and the institutions underpinning that. How would that be potentially replicated in an independent Scotland? What would be the cost of trying to replicate that network?

David Watt: I can't sit here as someone who was born 20 miles from Glasgow and listen to David sing Edinburgh's praises quite so loudly, bearing in mind that there is another significant city in this country.

Also it would be enormously remiss not to say that one of the real issues, interestingly enough, for the UK in terms of potentially losing Scotland is Aberdeen. Aberdeen is genuinely a global centre for oil and gas exploration and energy and significant headquarter companies are in Aberdeen and will continue to grow in Aberdeen as the oil services industry. It is worth a

 18 June 2013 David Watt and Professor David Bell

visit. The health of Aberdeen is mindboggling. It has notionally 2% unemployment, for example, which statistically means nil, and the companies and the salaries and wage levels. It has the biggest square mile of millionaires outside Mayfair. I think it is just astonishing. That is almost like a country on its own in that area as well. That is to balance those nice remarks about Edinburgh, which I do share but I did not want that to pass.

In answer to your question, I am a great fan of UKTI and I think it is helpful to business, but we do have Scottish Development International and the Scottish Government is very active in that area. To be fair, whatever anybody may say about our First Minister, he is genuinely a massively passionate Scot and a great advocate for Scotland, and he has been helpful and successful in convincing businesses that Scotland is a great place to be. There is no question but that he has done that, regardless of politics. That is not meant to be a political statement. It is a factual statement. He has helped galvanise the resources of the Scottish Government at present. I think that would continue and possibly grow.

There could be a potential massive cost to losing the services of the British embassies and high commissions worldwide. You are absolutely correct. Although, not to be negative but I have been in one of two myself over a period of years and I have sometimes wondered if Scotland was recognised at all. If I am honest, I think we still miss a trick in the embassies and high commissions around the world in not singing about the four nations that make up Britain to make it a strong United Kingdom, and sometimes we do tend to talk about London and other places when there are fantastic other areas of the United Kingdom. We would lose a bit, without a doubt. You could argue we might gain a bit.

It is interesting, if you look at a lot of international media attention that Scotland is getting at the moment, I wonder if that is slightly related to the inward-investment programme, that we are more in the world eye perhaps because we are having this interesting debate about independence.

Q114 Mike Crockart: You talked earlier on about the uncertainty around fiscal policy. My question relates pretty much to that. Have you identified what the risks are of having diverging tax and economic policies across the current geographic market of the United Kingdom?

David Watt: Yes, there are potential risks. There are also potentially opportunities in terms of taxation. To be fair, what we have done as an organisation—I should perhaps have mentioned earlier—is I initially challenged the campaigns to detail basically a business plan for Scotland going forward after 2014, whatever the outcome. We quickly found out that the campaigns are set up to say yes or no and do not develop policies and, it is perhaps naivety, we believed they would. We are now engaged with political parties asking them that same question. We want to know, on behalf of our members and on behalf of businesses in Scotland—what is Scotland going to be like post-September 2014 and in 15 and 20 and 30 years' time? I think business is convinced on either

side what it is going to be like and how it is going to prosper. If you are advocating, as the Yes Campaign and the SNP are, that we will have changes, what is the evidence and what are the changes you are going to make that are going to reduce cost to business?

Potentially, as I mentioned, an additional FSA charge, a difference in VAT in the longer term or something could make a difference across borders. So, how would you alleviate that cost, and what are the benefits you are bringing? To be honest, there is not a lot of evidence coming forward yet but I think, from our own point of view, both sides of the campaign need to give us this business plan for Scotland and promise us a healthy future and face up to the question, for example, as mentioned earlier, about, "How do we build entrepreneurship in this nation of Scotland?" If you believe we should stay in the United Kingdom, how do we do it under that structure? If you believe in independence, how do we do it under that structure? In both cases we are desperately short of facts and figures, I have to say.

Q115 Mike Crockart: You are basically saying that it would increase costs. That might be worth it but you need to see the detail?

David Watt: Yes.

Professor Bell: This is an area where we, as with many that we have talked about, do not know all that much. Clearly, if there were differences in income tax rates, for example, there would come a point at which you might see people starting to move on the basis of these differences in whichever way. As I said earlier, this is particularly important for high-income individuals because if high-income individuals start to move across the border, in either direction, it has a very significant effect on income tax revenues. Clearly there are some resources that are removable, like the North Sea, but on people you might end up with some flows. Against these sorts of risks there are also possibilities of learning from each other, which I don't think we do very well at the moment.

For example, reform in certain areas of taxation and the like, property taxation where we have a bit of a mess, if it was possible to carry that forward in one jurisdiction then the other might follow. It might politically become easier to do that in one jurisdiction or the other instead of the current impasse that we have had. I have just completed a new house, and the valuer estimated what its value would have been in 1992, which must have been quite an exercise. Property tax may be a particular example, but there are others of where our system is not perhaps the best of all possible worlds.

Q116 Ann McKechin: But that is a tax that has already devolved. That is a tax that has fully devolved and has been since the start of devolution.

Professor Bell: Indeed. There is the possibility of sharing some change.

Q117 Mike Crockart: Can I just ask one quick follow-up question because I am particularly interested in this point that you make about the high-net-worth individuals and the preponderance of them in Aberdeen and the potential impact that diverging

18 June 2013 David Watt and Professor David Bell

income tax rates could have. Are you seriously suggesting that what might happen is people spending a bit less time in Aberdeen and having a main residence south of the border to try to pay tax in a different area?

Professor Bell: I suppose there will come a point at which people would certainly consider that. It will be interesting to see how HMRC allocate people next year, which is meant to be around your main social location, and I think people will be given the option of deciding whether that is correct or not. There will be some interesting pointers next year. I am not sure whether it happens pre- or post-the referendum, but clearly there are some people who are in a position to effectively make a decision. Most people are not, but they could determine—

Q118 Mike Crockett: The Scottish Parliament have had the power, although they lost it briefly, to vary the tax rate already. Surely this should be a fairly easy exercise.

Professor Bell: Unfortunately, there is not all that much work on this. The Institute of Fiscal Studies does most of the work on how people respond to

changes in income tax rates, but it has not ever specifically looked at top-end people moving. It has looked more at whether married women would join the labour force or not, and the effect of income tax rates on that, but I saw one of the deputy directors last week, and I think they are thinking of doing some work on this.

Q119 Chair: I think that concludes our questioning. Thank you for that contribution. I would just say that it is perfectly legitimate and we are very happy to receive any subsequent evidence that you give. It may well be that you go away and on reflection feel that you could have added this or that to an answer, or you may wish to refine some of the statistics that you have given us. Please feel free to write to us with any supplementary evidence. It will have exactly the same weight as the comments that you have made here today. Similarly, of course, we may go away and realise that we should have asked you a question but did not and would like to take the opportunity to write to you to rectify that particular omission and would be grateful for your response. That is very helpful indeed. Thank you very much for your contribution.

Examination of Witness

Witness: **James Barbour**, Director, Technical Policy, Institute of Chartered Accountants of Scotland, gave evidence.

Q120 Chair: Good morning, and thank you for agreeing to address us. You are indeed the panel. I will say the same to you as I did to the others. Will you introduce yourself for voice transcription purposes, and we will hope that you are being recorded this time.

James Barbour: I am James Barbour, the Director of Technical Policy at ICAS.

Q121 Chair: Thank you very much. I will start off with a fairly general question. How do you think UK liabilities should be divided between an independent Scotland and the rest of the UK?

James Barbour: I can't give a personal opinion on that, I am afraid, but what I can do is say there are various mechanisms that could be used. One is the per capita basis, basically done on the split of the population of the Scotland in comparison with the population of the UK as a whole. I think the figure calculated there is about £92 billion or £93 billion, but that, of course, was based on the figures at the end of March 2012. Given the forecast—

Chair: Sorry, could I just interrupt. Could you give me that figure again?

James Barbour: £92 billion or £93 billion. That is the figure that is generally quoted that would be allocated to Scotland based on the figures as at March 2012 but, of course, the earliest anticipated date of an independent Scotland would be March 2016. At that time we are expecting the UK public-sector net debt to be in the region of £1.5 trillion, and so the figure that would be allocated to Scotland would probably be nearer to £126 billion. Using that basis would probably be favourable to Scotland.

Other mechanisms for allocation, of course, would need to take account of the fact there is another party to this. There are those who own the debt. What are their views going to be and what are they going to look for in return? It could well be they will look for the future prospects of Scotland and assess them against the future prospects of the UK and look for an allocation on that basis. That might be anticipated future tax revenue or anticipated future GDP. I am sorry I could not give you a figure based on that, but there have been some calculations, and that might, by and large, based on recent revenues and so forth in Scotland, lead to a higher allocation of debt to Scotland.

The Scottish Government also produced its opening balance sheet paper, which took account of the last 30 years, saying that the majority of the UK public sector net debt has basically been accumulated in the last 30 years. If you look at that period, Scotland has done proportionately better than the rest of the UK, and they came up with an allocation of £56 billion. That is almost half what the figure would be in the per capita. You are approaching half. So, there will be a substantial difference there.

If we go back to the allocation of debt when Ireland left the United Kingdom in the 1920s the situation was such that Ireland agreed to take its share of the debt but ultimately took nothing because the UK Government waived it. I am not saying in the current climate the UK Government waive any right, but let us be clear here, the debt is the United Kingdom's debt. I would expect Scotland to be given an allocation, but the debt, as it stands legally, would be the United Kingdom's, and I think that is why it is

 18 June 2013 James Barbour

essential that we would need the views of who owns the debt because ultimately they will want to be repaid. There also is an argument that, if Scotland wants to exert itself and show its financial credibility, it would be good for it to take its apportionment of the debt.

There are various mechanisms and unfortunately—we mentioned this earlier—this is one of the known unknowns and this is the big issue in this whole independence debate. There are a number of known unknowns.

Q122 Chair: Yes, and can I just introduce another possible known unknown? Given the fact that it is likely that there will be an allocation of debt and given the fact that repayment of that debt may in part depend on the assessment of the credit rating agencies, do you think that an independent Scotland is likely to incur, shall we say, a more negative perception from the credit rating agencies or not?

James Barbour: Again, that is another one of these known unknowns. The situation will be such that Scotland will be a far smaller nation and you could argue on one hand that that would immediately lead to a higher premium in relation to any debt it was taking on. It would be normal economics—smaller, more risky, and we want a greater risk premium. Against that, I would imagine that the other side would say, “Well, we have all these oil revenues that will come through from the taxation of the oil, and over the last 30-year period we have performed, on a fiscal basis, better than the rest of the UK”. So, they would use that argument. If you were pressing me, I would probably say there would be a risk premium based on the balance of probabilities.

Q123 Chair: Thank you. We could probably try to second-guess a whole range of perceptions, but is there any evidence that, in general, smaller countries incur a higher risk premium than larger countries?

James Barbour: I think there probably is evidence. I could not point you exactly to it but, again, you could point to countries like Norway that are not big but are probably paying a lower premium than some other countries. Again, it would all come back to exactly how these third parties would view the future of Scotland, and David Watt referred to this. This is what we need. In the White Paper we need for the Yes Campaign to set out exactly what they see as this future Scotland—what will it look like?—and we need to know what the starting position will be, because another aspect that we just discussed was the debt that would be allocated to Scotland. If Scotland was allocated nothing, it would appear a far better business proposition than one that is allocated £126 billion, so we need information as to what the starting position will be if there is to be an independent Scotland.

Q124 Chair: I accept that point. I just think it is highly unlikely. The Barnett formula: how is this factored into the assessment, and do you think it is helpful or unhelpful?

James Barbour: Sorry, in what sense? Are we referring here to, going forward, whether Scotland would be better off in terms of the revenues that we

are getting from the oil industry as opposed to the allocation that it currently gets under the block grant? I am just seeking clarification.

Chair: Yes. Basically, do you think, with the revenues you would be likely to get, you could sustain the same level of public support as you do at the moment through the Barnett formula?

James Barbour: I think in the short term the answer probably is yes, but the oil won't last forever. There would be this need to somehow look to the future to see where Scotland would get its revenues from 50 years hence, for example, and that is one of the big issues. Of course, the block grant might not last forever either. There might be changes to that, but one of the worries certainly would be that at the moment the oil will run out at a period of time. How would Scotland then have its economy rebalanced?

Also, if you look at the UK, the whole idea of rebalancing the economy is very much in the Government's agenda as well because we have been to the line in financial services. To a lesser extent the same issue applies to the UK. There is a need to rebalance the economy. In Scotland we would need to see how, when the oil runs out, we can be in a position to have additional revenues that will compensate for the loss of that revenue.

Q125 Katy Clark: In your evidence to the House of Lords Committee you stated that there were no official statistics for tax paid by those in Scotland simply because there had never been a need to measure them. Is it possible to disaggregate the figures to provide statistics about tax?

James Barbour: I am not a tax expert, but I have spoken to the tax experts within our organisation, and they say it is not. They do say, though, that the income statistics are fairly reliable. The big issues kick in when you get into corporation tax because there has never been a need to allocate these on any basis.

Q126 Katy Clark: How, as a Committee, do we try to come to some clear understanding of the financial position of an independent Scotland because, of course, what we are trying to do is inform the debate to enable people to make a decision? How are people going to make a choice if we can't get these types of information?

James Barbour: I very much agree with that statement. I have highlighted not only the opening position but, just as you are saying there, what would be the future position going forward in terms of tax revenues. I think it is very difficult. Some of the information will exist within the UK Government at HMRC and some of that information may be made available, but I am just speculating on that. It is something that has never had to be done and sometimes, if you have not set up the systems to provide the information at that point in time, it can be very difficult in retrospect to reproduce that information that obviously everyone is looking for, and I fully appreciate where you are coming from on that question.

Q127 Chair: Can I just follow this up? I am not an accountant and what I may be saying may be complete

18 June 2013 James Barbour

gobbledygook. However, it just seems to me that in effect there must be some point at which a company qualifies to pay corporation tax, whether it is headquartering of that company or whatever. Would it not be possible to at least do some projections, say, based on Britain's total corporation tax take and allocated according to the percentage of companies that are known to be headquartered in Scotland as opposed to the rest of the UK?

James Barbour: It would be possible to do a calculation of that sort. How accurate it would be I don't know, and, again, we would come back to this aspect that the vast majority of corporation tax is paid by a very small number of large companies. Maybe if you had the information to go within those organisations, but I am not sure how many would be applicable in Scotland. That would be where you would be starting to look to try to assess what it is you are looking for.

Q128 Chair: It does seem to me that it would not be impossible for the accountancy profession to work out a number of tools by which such a balance could be determined, particularly given the fact that you have said there is a relatively small number of companies paying the greater part of the corporation tax. Do you think that would be possible, and do you think it could be done prior to the referendum?

James Barbour: HMRC will have all the information in relation to who is paying the tax. The accountants would not be able to come out and publicly state who is paying what in terms of tax.

Q129 Chair: From your perspective as an accountant, do you think HMRC, the Treasury, has the appropriate degree of expertise to do that?

James Barbour: I think they would be able to form some form of assessment based on the information that is within the system. How long that would take and, as I say, how accurate I am not sure.

Chair: Okay. We will probably pursue that with other bodies at some stage.

Q130 Ann McKechin: You have also argued that to design and implement an independent tax system in Scotland from scratch could realistically take a decade, if not two; shorter if more limited devolution occurs than is involved. Does that suggest that Scotland should start by retaining the structures of the current UK tax system, or is it more complicated than that? We have obviously had this discussion about corporation tax, but the other issue on which HMRC are already working is about now defining within the UK who are Scottish residents. I just wondered what the challenges are for the tax systems.

James Barbour: There are a number of challenges in the tax system and, again, it comes back to a point that the panel discussed earlier on. What is the vision for Scotland? Once you have the vision you can then decide what taxes we want to have. The easiest solution is just to take exactly what we have in the UK and that would probably be the quickest but, by doing so, we will be taking all the faults that also exist within the UK tax system at this moment in time, which is very complex and everyone recognises that

there is a need for simplification. When I sat my tax exams there were two thick books on that, and now we are talking far greater than that, so I pity all the students who have to sit these exams nowadays.

Being serious again, it would be a major effort and there would be major cost implications of Scotland implementing its tax system. These cannot be underestimated.

Q131 Ann McKechin: Would this include the fact there would be additional issues about trying to establish, for example, in corporation tax exactly where the profit arose and, in the case of income tax, because people can have more than one address as we know, where they decide and determine where their address is and whether that is their real address from the point of view of the tax regulations?

James Barbour: Well, this would need to be confirmed in the legislation that was set and, of course, we could have issues with people transferring across borders. Transfer pricing would be an issue. If we look at a lot of the tax avoidance cases, it relates to either transferred pricing or different schemes in different jurisdictions. Now, what would be happening here is we would have another jurisdiction, which possibly increases the potential for further tax avoidance schemes to be put in place.

As well as that, there are figures out there that I believe indicate that the costs of running the equivalent of HMRC in Scotland would be anywhere between £311 million to £600 million a year. Now, I will find my source for that and I will provide it to the Committee, but again it is a substantial cost. We really need to identify what taxes we would be looking to introduce in Scotland. Much has been made of the corporation tax and Scotland would look to have a lower rate of corporation tax. The UK already has a very effective rate of corporation tax against other major powers. It is coming down again to 20% in 2015, so a lot of work has been done there. How much scope would there be for an independent Scotland to reduce that even further? Corporation tax is not always the key factor in companies deciding whether to locate in a region or not. There are other factors that are out there.

Q132 Ann McKechin: I just wonder because the Scottish Government were originally, I think, talking about a figure around about 17%, 15%, and then they changed because of the UK Government decision to lower the tax. They are now talking about a 3% difference from the UK as a consistent standard. How difficult is it for them to keep changing the tax rate round dependent on the neighbouring country?

James Barbour: Well, again, it will come back to a formulation of how much tax revenue would Scotland get from corporation tax. They would need to have an assessment of how much corporation tax and how low could we afford to go. Other factors: what would the UK do if there was an independent Scotland and Scotland decided to reduce its corporation tax? Is it going to sit back and say, "That is fine" or is it going to retaliate? Now, I do not know the answer to that but behavioural aspects will come into this as well.

18 June 2013 James Barbour

Another factor: when Scotland joins the EU would it be seen as favourable if Scotland sets out its intention to be one of the lowest corporation tax rates in the EU? Would Ireland, but for the financial crisis, still have a low corporation tax rate or would greater power have been exerted by the EU to get them to fall more in line with the rest within Europe? These are all questions that are out there and I do not think it is just quite as simple as saying we are going to have a low rate of corporation tax.

Q133 Ann McKechnin: Just one further point, you mentioned that the alternative is more limited devolution in the transitional period. Would that imply that an independent Scotland would share formal tax arrangements with the UK, perhaps in some of the taxes until they were in a position to take over the administration?

James Barbour: I believe that is one option that is certainly there. I would really struggle to see how, if Scotland was to have a yes vote and then become independent in March 2016, we could possibly have all the relevant systems in place to operate a completely new tax system. It certainly does remain an option. Over time, the likelihood is that if that was the option that was taken, things would change as time went on, but we cannot underestimate the costs that will be involved in setting up this independent tax system in Scotland.

Q134 Paul Blomfield: You have touched briefly on membership of the EU, which is clearly a critical issue. How important do you think it is to have clarity in the lead-up to the referendum on whether an independent Scotland will remain part of the EU or will have to apply to become a new member?

James Barbour: I believe it is absolutely essential that we get clarity on this question. At the moment, Scotland is part of the UK, which is a member state of the EU. There are a number of businesses who I think would look on it adversely if Scotland was to come out of the EU. The EU offers access to markets, and not just within the EU. There are a number of global agreements with other countries, which a number of companies within Scotland would not be happy to see lost.

If the UK remained part of the EU and Scotland was not part of the EU, you would have a situation where two-thirds of our exports would be to this country, which was part of the EU and of which we were no longer part. That potentially could lead to additional costs, additional barriers to trade, which certainly would not be good for Scotland at all.

It is also essential to know exactly where we will stand as a country. Are we going to be part of Europe or not? There have been—it was alluded to earlier by the panel—comments made by certain people in Europe that certain countries might not look favourably on Scotland applying to the EU. Now, I personally think that Scotland would become a member of the EU regardless. The only thing I am not sure about is the timetable. Another factor is whether Scotland would have to join the euro; again, a major factor. We have the Schengen situation. There are a number of factors. Would Scotland have any opt-outs?

Now, if you look at this from the outside it is hard to see how Scotland would be able to stand in the same position as the UK in negotiating opt-outs. I think it is quite difficult to see how we would be in that position. The argument against that would be that during the time of any yes vote to the transition to Scotland becoming independent the negotiations would take place as Scotland was still part of the EU through the UK membership, but it does seem difficult from the outside to assess how Scotland would be able to take advantage of any options. I certainly think it is vital we know the answer to this.

Q135 Paul Blomfield: I think there has been a consensus of all the witnesses that we have had the opportunity to talk to that Scottish membership of the EU is clearly important, but it is right that we look at the terms. If, as the general assumption is, Scotland would have to reapply and as a new member state, for example, would be required to join the euro, what difference do you think that would have for the Scottish economy?

James Barbour: Well, I have mentioned one of the issues straight away and that would be that two-thirds of the exports are going to the rest of the UK. The rest of the UK would still be using sterling and we would then be using the euro, so straight away you have transactions costs. The public, never mind business, do not like transactions costs. You know when you go on holiday and you have to transfer your currency. Even if you were not to spend anything, when you come back you still have less than you went with. It is that feeling. Any barriers to trade would not be welcome by business. If we were in the euro, that is one of the potential issues.

Another issue again would be monetary policy would be, in effect, being set. We have seen the consequences of that when it is set, in effect, taking account of the larger states such as Germany, France, what has happened in Greece and so forth. There would be worries that monetary policy, which is one of the key economic levers, would be being set in Europe. Interest rates would be being set by the European Central Bank, so again it would take away another pillar of this argument of independence and having access to these key economic levers.

Q136 Mr Walker: I think you heard the earlier panel talking about the issue of the banking system and the dominance of the Scottish banking set-up by really two banks, HBOS and RBS. Do you have any comments on what effect that dominance is likely to have on lending to businesses in an independent Scotland?

James Barbour: Well, at the moment lending is not very great so I am not sure that going forward it would have a much greater detrimental impact. At the moment, businesses really are saying the banks are not lending. The banks, of course, have to ensure that they have been increasing their capital buffers, so it is difficult to put the blame on the banks because they are really caught between two different lines of action here. I am not sure that there would be a major deterioration in the current situation, to be honest, although other factors do come into play. One is if

Scotland was in the euro and so forth, how would that impact? Unfortunately, we just really need to wait and see how that one would then actually roll out. There would be worries from consumers, however, if we were to get into a different currency. What would happen to their mortgages, all the financial products? Even if you take the extreme and Scotland had its own currency, what would be the immediate aftermath of Scotland having its own currency? There would be, I certainly believe, a slight concern among most of the public at this moment in time if that was to be the case.

Q137 Mr Walker: I think there would probably be concern from both sides of the border on that front. I suppose I should declare an interest in having a small private pension with a Scottish pension company. Presumably, there would be a similar impact in terms of concerns and worries if there were to be a different currency from all those people in the southern part of the UK who might hold financial policies based in Scotland.

James Barbour: Yes, most certainly.

Q138 Mr Walker: Just in terms of the competition situation, do you see any aspects in which Scotland might be better placed to attract competitor challenger banks if it were independent, rather than remaining part of the UK?

James Barbour: Again, it would come back to what this Scotland looks like and so forth in my view. If Scotland really was seen as this attractive proposition, then possibly, but I think, as was mentioned earlier, banks really now—in terms of the larger banks—will go where the business is and so forth. They can still allocate funds across borders. If you really have this great business proposition, the chances are that someone will provide the funding for that proposition. I think businesses still would be able to attract finance, whether it was coming from banks within Scotland or financial institutions outwith Scotland, if they had the right business plan and it was seen as something that could be taken forward.

Q139 Mr Walker: Would an independent Scotland be more or less attractive as a country in which to headquarter companies and also in terms of attracting inward investment from elsewhere in the world?

James Barbour: In terms of inward investment, Scotland has done reasonably well and the recent Ernst & Young figures again indicate that. I think Scotland was second out of regions in the UK in terms of attracting foreign direct investment. Provided the right infrastructure and so forth was in place, Scotland may be able to continue to do that. I do know the points made earlier on, that it would lose access to some UK agencies and so forth, but it might be able to still continue to do so.

In terms of companies looking to headquarter in Scotland, I am not so sure. I think there were concerns raised about this earlier on. The larger companies now do tend to centralise themselves near large key cities, such as London and so forth, around the globe, and I am not sure if Scotland would fit into that particular dynamic.

Q140 Mr Walker: You mentioned putting the right infrastructure in place. Can you just describe what you see as the right infrastructure to attract?

James Barbour: Well, to a certain extent Scotland would need to mirror what is in place in the UK at the moment in terms of the UK having this good governance structure and how it is perceived globally. People invest in UK companies because they believe there is a governance structure, a regulatory structure in place that is conducive to investment. The tax system again would be vital. You would need to have competitive tax rates and so forth, but you would want to attract the right type of companies as well. These letterbox-type companies were mentioned earlier. Well, they are not going to contribute significantly to the Scottish economy. We need corporations here that would bring in jobs and so forth. All these factors would need to be looked at in order to try to bring in the types of organisations that you believe would fit the model you see as your Scotland going forward.

Q141 Katy Clark: You have touched on this issue already in relation to corporation tax and the possibility of a race to the bottom between Scotland and the rest of the UK if Scotland were to go independent. What do you think the risks are of having diverging tax and economic policies given the current geographical market within the UK? In what areas do you think it might make sense to have different policies and in other areas where do you think it would be very risky?

James Barbour: I have already alluded earlier to how important the UK market is to Scotland, so anywhere there is a difference in theory could act as a negative, a disincentive to business across those borders. Earlier on it was mentioned how much of the UK business goes to Scotland. I think the figure is roughly 10% so the significance to Scotland is far greater in terms of its sales to the rest of the UK, but 10% is not an insignificant sum either. There is a great deal of interdependency between the two economies.

In terms of where I think things would be better, at the moment I think Scotland already has certain powers that it can use to help bring in companies and so forth. I am not sure there are areas where I would specifically set out and say I would do this or that to improve things. I think such is the interdependency of the two economies and the importance of the UK economy to Scotland that as soon as you go down a divergent route you are in theory creating barriers. Now, if we look at the tax situation, if we go down different tax routes or even different types of tax that potentially creates opportunities for tax avoidance, which is not something that we would really relish. Again, we believe at this moment in time that it is absolutely crucial that whatever happens post the referendum absolutely what is key is ensuring that the UK market that exists at the moment would still exist with the minimum amount of barriers. Now, the divergences between the Republic of Ireland and Northern Ireland were alluded to earlier, and businesses have commented that even the simple VAT situation there does cause problems. Even simplistic matters such as VAT and administration of VAT add to the costs of businesses trading across these borders,

18 June 2013 James Barbour

and if you have additional costs, it does not help anyone.

Q142 Mike Crockart: Thank you very much. I have a particular question, but, before we move off the subject of tax, much play is made of the creation of a sovereign oil fund, eyes cast longingly across the sea at Norway. We have already heard in evidence session today about the state of the deficit for Scotland even with oil revenues on a geographical basis taken into account. I just wonder if you have any figures or knowledge of any studies that have been done on what would need to happen in the tax or spending of the Scottish economy to enable a sovereign oil fund to even be created.

James Barbour: I am sorry, I do not have figures available that would enlighten us in relation to that. Assuming that Scotland does get an allocation of the debt and if we assume for this moment it is in the £92 or £93 billion mark, then Scotland would have to make a decision as to how it was paying back that debt and also if there would be funds available to set up this separate fund. If we went back in time, it probably would be a great idea for Scotland to have set up its separate oil fund. We are now at a different point in time, and it would very much depend on the opening position of Scotland and the anticipated revenues coming forward as to whether such a fund could be set up or not.

Again, if it was able to set up a fund, that could help alleviate some of the concerns in relation to what would happen when the oil ran out. It would maybe give greater time to rebalance the economy, but ultimately you could not keep funding something if the revenues from that area dried up either. It really does depend on what this future Scotland looks like and I am afraid it goes back to this: it is another known unknown; we do not really know what position this Scotland would be in. I do agree it would be really helpful to have the information that you have asked for.

Q143 Mike Crockart: It is clear that there would be difficult choices to be made there because in the evidence session that we had yesterday one of the witnesses who talked about a sovereign oil fund dismissed the use of the oil revenues to pay back debt saying that other savings could be made to pay back debt and that the oil should be put into a sovereign oil fund. There would be a significant impact if the choice were made to do that either in the tax take or in Government spending.

James Barbour: Yes. As I say, we would need to know what the tax take was. Once we knew what the income was Scotland was getting in, we could then assess what could be done with that money. Until we actually know what is coming in, it is almost impossible to say. Yes, it would be great to pay back the debt and also set up this separate fund at the same time, but would there be sufficient revenues there to do it? What would that mean in terms of the other side of this, the public spending? Would there need to be significant cuts in public spending? That is why I keep going back to this. What is the vision for this Scotland? In the White Paper it really has to be set

out what the vision is for Scotland. Are we looking at an economy that will be higher taxed, greater social welfare type economy, or are we looking at a different type of economy, possibly with lower tax, et cetera, and lesser spending on welfare and so forth? This is what really needs to be set out so that then proper assessments can be made, because the tax rates will obviously have an impact on what income comes in and then you can look more properly at what you can do going forward.

Q144 Mike Crockart: Okay; thank you. Moving on to the point that I was wanting to ask the question about, which is more to do with the financial services sector, according to evidence submitted to the House of Lords Committee the Scottish financial services sector, Scottish insurers, sell 94% of their products to the rest of the UK. About 84% of mortgages sold by Scottish companies also go to the rest of the UK. How do you think that will be affected by independence?

James Barbour: I would have a concern that those numbers would decrease going forward. There is some research out there that would indicate that people like to buy from the jurisdiction in which they are based. If you are no longer in that jurisdiction, would it have the same attraction? There might also be nervousness: will this eventually pay out if it is a pension? What are the risks attached to this? Would they be looking for greater returns? And so on; there are so many factors involved in this that I think the best I could say is it would be a concern.

Q145 Mike Crockart: Do you think that the impact depends more on possibly international agreements that might be drawn up between RUK and Scotland or if there were different financial regulations that applied north and south of the border? Would they make the impact greater or lesser?

James Barbour: If there were different regulations, that would be a negative. Anything that adds to complexity I would see as a negative compared with where we are at the moment. People would perceive that greater complexity, different regulators, additional cost, and the consumer ultimately will pay the cost at some stage. If we had that situation, I think consumers would be worried and it might have an impact on where they invest their money, whether it be in pensions or other types of investment products, or whoever they take their mortgage with as well. They might look to the aspect that because of these additional costs that would again potentially increase the cost of their mortgage through interest rates, et cetera.

Q146 Ann McKechnin: Thanks very much. I think I do recall that when Scottish Power was bought by a Spanish company and was subject to Spanish tax law many people in Scotland decided to dispose of their shareholdings. I think this issue you have mentioned about potential different tax rates is a very good point. Sorry to put you on the point, but your own institute I think is arranging a conference today about pensions and I think the Finance Secretary is addressing the conference about the issue of pensions. We had from the evidence yesterday some discussion about the

18 June 2013 James Barbour

pension arrangements for, for example, university lecturers and also for the thousands of people who are employed by Royal Mail and the Post Office. I think one of the pension schemes that was mentioned is currently in deficit. If pension schemes had to be separated out between Scotland and the rest of the UK, am I correct in considering that the fund, if they were in deficit, would have to be capitalised before it could be then divided?

James Barbour: That would relate to the private sector schemes, yes. They would need to make good the deficit under the EU law because it would then be different jurisdictions. But let us be honest, in the whole pensions issue, the UK has a pensions issue and the pensions issue is that most of the public sector pensions and also our state pensions are unfunded. Now, at the whole of Government accounts at the end of March 2011—which is the most recent set available—£960 billion was the estimated liability in those pensions. Now, Scotland again would need to get its share of that particular debt and in theory that would relate to whether someone was considered to be on the Scottish side of the fence or the rest of the UK side of the fence. I do not have access to specific figures at the moment as to what that would amount to, but again it will be another substantial debt that Scotland would have to take on board. It is something that I think you will find there will be a lot of discussion at this conference today on, but I think there will also be a lot of discussion going forward on this particular issue.

Q147 Ann McKechnin: Another known unknown?

James Barbour: Yes. There will be unknown unknowns out there, but I really have to emphasise there are enough known unknowns in this situation and that does create uncertainty. Business does not like uncertainty. At the moment that has not really played out, but the closer we get to this referendum there is the likelihood that the uncertainty might start to creep up and have an impact on business decisions. I hope that is not the case but, as I say, it is just one of those factors that is out there.

Q148 Chair: Could I just take this pension issue one step further? You have alluded to the deficit with public sector pensions. Off the top of my head I do not know the figures myself, but my instinct would be to say that there is probably a higher proportion of employees in the public sector in Scotland than certainly in the south and London area of England. Would it be fair to say that a disproportionate amount of that public sector pension deficit would be

attributable to Scotland? By disproportionate I mean slightly more than if you allocated it on a purely population basis.

James Barbour: It might, on the face of it, appear to be the case, but we would really need to look in detail to see who these pensions actually belong to because you might find there are a lot of higher earners south of the border with far higher pensions. It is a difficult one and we would really need the detail to give you a proper assessment of that particular question.

Q149 Chair: If I can just come back, how do you think that could be done?

James Barbour: Well, the information should be available within a number of sources as to what makes up this pension liability. Whose pensions are we talking about? For each individual again it would come back to whether they are perceived as being Scottish for this purpose or rest of the UK. For example, what happens to someone who is based in Scotland but has worked all of their life in London as a civil servant and built up the pension there? Who should take responsibility for that pension if the person retires to Scotland?

Q150 Chair: Thanks. You have highlighted a whole number of issues and—I love this phrase—known unknowns. Obviously, it is as difficult for this Committee to come to hard and fast conclusions on them as it is for people to give their opinion. One of the benefits of having people like yourself to be interviewed by us is that, of course, we now have a greater clarity on what are the known unknowns and, perhaps, what are the steps to make them slightly less unknown. In that respect, we are very grateful to you for helping us take this forward and, if you like, clarifying where we need to go as a Committee to try to resolve some of the very imprecise and vague areas on which voters are going to have to base their judgment.

That is a rather longwinded way of saying thank you very much. You have helped the Committee take our deliberations forward and we very much thank you for your contribution. As I said to the previous panel, do feel free if you wish to either refine, clarify or supplement anything that you have said to us today with further written evidence, we will be very happy to receive it. Similarly, if we feel that we need to probe you further on any aspect of it, we may write to you and we would be grateful for your reply. Thanks very much.

James Barbour: Thank you very much for the invitation. Thank you.

Wednesday 5 February 2014

Members present:

Mr Adrian Bailey (Chair)

Mr William Bain	Rebecca Harris
Mr Paul Blomfield	Ann McKechin
Katy Clark	Mr Robin Walker
Mike Crockart	Nadhim Zahawi
Caroline Dinenge	

Examination of Witnesses

Witnesses: **Rt Hon Vince Cable MP**, Secretary of State for Business, Innovation and Skills, and **Rt Hon David Willetts MP**, Minister of State for Universities and Science, Department for Business, Innovation and Skills gave evidence.

Q151 Chair: Good morning, Ministers. Thank you for agreeing to speak to the Committee today—an agreement that we could not get from John Swinney. Of course we know full well who you are, but for voice transcription purposes if you would just introduce yourselves, that would be helpful.

Vince Cable: Vince Cable, Secretary of State, Business Innovation and Skills.

Mr Willetts: David Willetts, Minister for Universities and Science.

Q152 Chair: Thanks very much. I am going to open with a fairly general question. As you will be aware, in June we took evidence in Scotland, where we interviewed various business representatives. They highlighted uncertainty and lack of detail as a key risk that they were concerned with, and most reserved judgment until the publication of the Scottish independence White Paper. There are two interpretations: one, that they genuinely did not know; or two, that they were unwilling to raise their heads above the parapet. Do you think that the White Paper, now it has been published, gives them the clarity to take a position?

Vince Cable: The simple answer is no. Like you, I meet Scottish business frequently. I have been there twice in the last few weeks, and will be going frequently again. The main issue that they raise is one of uncertainty. This is a very big and weighty document that goes into a lot of detail, but it does not address the fundamental doubts that a lot of businesspeople have about currency union, what that means and whether it is sustainable. We argue in the UK Government that we do not think it is a sustainable model. It has enormous implications for business if it does not work; there are the issues about admission to the European Union and the hiatus that would be created and would create a great deal of uncertainty for business.

I think from the business point of view, the big issue, which is touched on in here, but not in a very satisfactory way, is the problem of creating two new regulatory systems in what has hitherto been a unified system. We have a single market within the United Kingdom that is much more integrated than the European single market. I am not just talking abstractions; I will take one or two simple examples.

In most of the knowledge-based industries, intellectual property protection is a crucial factor—patents, copyright, trademarks. My understanding is that under a Scottish system they would want to have their own regulator with their own Scottish patent copyright system. That might be good, it might be bad, but it would mean that if you were trying to patent an invention in Scotland or copyright some intellectual property, you would want your Scottish documents. Those would no doubt be attractive in Scotland, but then you would need another one for trade within the rest of the UK, so you would be creating a duplicate system with a lot of uncertainty around it. One can multiply that example many, many times over.

Q153 Chair: There was an interesting statement today by Bob Dudley, and I think amongst the points he made is that this debate is far too important to be left to politicians alone. Do you agree with that, and would you welcome the observations of more leading industrialists?

Vince Cable: Yes, I think they should. When I go to Scotland I find that businesses are reluctant to take a very strong public position on this, and I am not criticising them for that. If you have a labour force or a management team where some people may be nationalists and others are not, you do not want to create discord in your own company, so for understandable reasons businesses keep quite quiet. They may be worried in a wider sense, but it is understandable.

When serious businesspeople do speak up, I think it is important. Bob Dudley is important because he is a major investor in the North Sea—the oil industry, which is absolutely critical for Scotland now and also in an independent country. He is very clear that an independent Scotland would be worrying for a major international oil company. They would have to duplicate a lot of their administration.

There would be major uncertainty for them in the run-up to and after independence about the oil tax regime, which is complex and absolutely critical to their investment decisions. Bob Dudley is clearly not speaking from a tribal point of view—he is an American, so there is no reason why he should be looking at this from a non-Scottish UK point of view; he is just looking at it as an international business.

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

There are other sectors, not just the oil industry; in recent days we have had the financial services sector based in Scotland also expressing considerable worry.

Q154 Nadhim Zahawi: Secretary of State, you quite rightly mention BP and its role in the oil and gas sector in Scotland. The response from Alex Salmond has been that, “Of course, they would say that, wouldn’t they?”, because they are making such profits out of the natural resources of Scotland. Would you not agree that to make those profits in the first place they have to make substantial investments in Scotland, and therefore any risk of separation would mean that investment into the oil and gas sector may dry up in Scotland?

Vince Cable: I had not seen that comment from the Scottish Government, but I am surprised they have criticised BP and other oil companies for being profitable, because it is the profits that generate the savings to invest. It is crucially important for Scotland, and also for the whole UK, that we have a successful oil and gas industry in the North Sea. It is important not just for the exploration and production side; one of the most successful parts of the Scottish economy is the supply chain that has developed in the north-east around Aberdeen. It is a brilliant, highly innovative, highly successful industry, and that depends on the industry remaining profitable.

Q155 Chair: Would you agree that, given the strategic importance of the oil and gas industry to Scotland, and indeed an independent Scotland, that gives additional weight to the comments that Bob Dudley makes?

Vince Cable: Yes, it does. Scotland has two major industries; it is in many ways a very diverse economy, but it has two major industries, one of which is, and would be in an independent country, the oil and gas sector, and the other of which would be financial services. It is striking that within the last few days the strongest comments from Scottish business have come from those two sectors, which are crucial to Scotland, and where there is a very high level of worry about what an independent regime would look like.

Q156 Katy Clark: The White Paper argues that a high level of synergy can be achieved under the leadership of the Bank of England between an independent Scotland and England, in terms of macroeconomic policy. How easy do you think that would be to achieve, and what would you see as being the possibility of major strains on this approach, if the two economies and two countries diverged in their policies over time?

Vince Cable: They potentially would diverge, because Scotland, partly because of the oil and gas sector, could well move in a different direction economically. In terms of the monetary aspects, I would defer to the Governor of the Bank of England, who is not political and made it very clear he was not speaking as a politician, was not taking up a view on independence, but where he set out the logic of a monetary union. He made it absolutely clear that if there were to be a monetary union with an independent Scotland that would have consequences, one of which would be the

need for a banker union, which would severely constrain the regulation of financial institutions in Scotland.

The other, which is probably more difficult for an independent Scottish Government, is that there would have to be a fiscal pact comparable to the Maastricht Treaty. An independent Scotland would be heavily constrained by requirements in terms of budget deficit management and debt obligations. Its independence would be severely constrained, and that has led to the judgement—it is our Government’s view, but I think more widespread—that it would be extremely difficult to operate a monetary union with an independent Scotland. I recall that when Czechoslovakia faced the issue of velvet separation, as I think they called it, they were committed to a monetary union after independence and it lasted 33 days. There is a worry that this would have similar instability.

Q157 Mr Bain: Martin Wolf wrote a very interesting piece in the *FT* last week where he said that the Bank of England could not serve two masters. Is one of the difficulties that the proposal from the Scottish Government is to create a kind of supranational central bank on the model of the European Central Bank, when that would repeat the error of the eurozone, which was not having a fiscal union? Is it not strange that when the eurozone is trying to put that right, you have politicians on these islands who would wish to repeat that error right here?

Vince Cable: You make the point very well. I cannot do anything other than agree with it, and it actually is a deeper problem than that. The basic problem with the eurozone was not merely that they did not have a tight enough fiscal agreement at the outset, which of course constrains the independence of the periphery countries, but what they are now acknowledging is that they now have to be more politically integrated, which would be a strange conclusion to come from a breakaway.

Q158 Caroline Dinéage: VAT was highlighted as a particular concern of business. If the two countries had a shared approach to economic policy, could that accommodate differences in taxation—VAT, business rates, etc.?

Vince Cable: Is the issue about the value added tax regime?

Caroline Dinéage: The VAT, yes, but other taxation and business rates, that sort of thing. Could that be accommodated?

Vince Cable: Of course, an independent country would be free to set its own tax rates, but it nonetheless would have to do it within a fiscal framework, which, if the Scottish Government had its way, would be fairly tightly constrained within a currency union.

In terms of setting individual tax rates, there are several problem areas: one of them is value added tax. The UK is zero-rated on some goods and services, and it is one of a few countries that has achieved that derogation. If Scotland, as an independent country, reapplied to join the European Union—and I think you have all heard the arguments about the tricky legal issues there—it is quite likely that they would

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

be expected to observe the minimum VAT rate, which is 5%. The zero rating, which operates at a UK level, probably would not be something that they could achieve.

There is a complex argument there, but I would think that is a reasonable assertion. They would start off with different VAT rates for key areas of household budgets. There are then all the practical problems of setting up different VAT administration systems in the two countries, and the practical problems of businesses that trade across the border. Of course, there is a lot of cross-border trade, and one would hope that that would continue, but if you are involved in cross-border trade there are issues like how you get your reclaim on your petrol, which currently operates through a UK tax system. As I understand it, it would have to go through a VAT pooling arrangement in Europe, which is more complicated and bureaucratic, and certainly tricky for business to have to engage with. That is simply with regard to value added tax, and there are obviously parallel issues with other taxes.

Q159 Caroline Dineneage: I know you have touched on the relationship with the Bank of England already, but I wondered if you could tell me what discussions the UK Government has had with both the Scottish Government and the Bank of England on the practicality and desirability of the Bank of England's oversight of macroeconomic policy.

Vince Cable: I am not the person to ask, because my Department does not cover monetary policy, directly or indirectly, but I can pass on a general observation as somebody in Government. If there were to be a banking union, which is what I think the Governor has said quite categorically would have to exist if there were a currency union, it would cover several things. It would cover the protection of deposits, and it would cover supervision, and, most crucially, it would cover lender of last resort—in other words, if a bank collapses then the Bank of England, as the supervisory authority, would have to take responsibility for that. There would have to be tight control exercised over Scottish-based institutions to make sure that they did not pose a threat to systemic stability.

The crucial issue here is about the Royal Bank of Scotland, which was, in balance sheet terms, the biggest bank in the world, or close to it; it still is a very big institution. On some estimates its balance sheet is 10 to 12 times the size of the Scottish economy. That, almost by definition, creates a high level of potential instability, which that currency union would have to address. There is the question then about whether RBS would choose to relocate its headquarters to London, where its management already is, to avoid those systemic risk issues. There is a lot of uncertainty about what this would mean for regulation of the banks.

If I take just one other example in the financial sector, a very simple thing like ISAs, for stocks and shares: as I understand it that is a UK product. You would have Scottish institutions that do very well in marketing their products across the UK, and it is the biggest export industry from Scotland. In the case of independence, they would be considerably restricted

in what they could do, and there are some little practical problems of that kind that would occur within the kind of arrangements we are talking about.

Q160 Mr Bain: Given the growing list of factors that really make the idea of a currency union less attractive by the day, for people not just in a potential separate Scotland, but for England, Wales and Northern Ireland too, do you think it is now perhaps incumbent, Secretary of State, on the Scottish Government to set out what their plan B would be—i.e. what would be their choice for currency arrangements if a formal currency union with the UK was not available? What would the implications of that be for RBS, for example?

Vince Cable: The plan B is a fully separate currency, and the logic of what the Governor and other people have spelled out is that the problems of a currency union with an independent Scotland are so difficult, so tricky, that it would almost certainly prove to be in Scotland's interests, and, indeed the rest of the UK, that Scotland did have its own currency, although, of course, that would create a whole wave of other problems. It would create a barrier to trade across the Scottish border, as different currencies tend to do, and there would be the problems of managing a fluctuating exchange rate of a country that is very dependent on raw materials. The basic arguments about the problems of operating a monetary union suggest that Scotland would finish up with its own currency, with all the advantages and disadvantages that attach to it.

Q161 Mr Bain: If the Bank of England were not available, therefore, as lender of last resort, what implication would that have for the future of RBS, in your view?

Vince Cable: If you were managing RBS, you would almost certainly want to be in a domicile where your bank is protected against the risk of collapse. They already have a substantial amount of their management in London, and I would have thought that inevitably they would become a London bank. That would be symbolically quite important, because I think they were established in 1707 as a Scottish institution; I think that might well sever it.

Q162 Chair: Just before I move on to Mike Crockart on EU membership, just really a curiosity: you earlier described ISAs as being a UK product. I am slightly at a loss, not being a banker, to understand how they are a UK product when they are sold by Scottish banks, I presume, and others in Scotland, and what implications that has. Could you just amplify that?

Vince Cable: I could set out the details for you in a letter, if you like. As I understand it, the legal position is that ISAs are UK products, and it would mean that a Scottish institution that sells ISAs—some of them do, and they do it very well; there are some very good Scottish financial institutions—would be selling into a foreign country. It is not clear that the regulatory arrangements covering ISAs would then apply to them.

Chair: If you could send us a letter, I would be very grateful. Can I bring in Mike Crockart on the issues surrounding EU membership?

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

Q163 Mike Crockart: You did say earlier that we have all heard the arguments; I am afraid we are going to have to go through them again, because it is an area that keeps coming up. In the evidence sessions that we have had already it is one of the main concerns, especially of businesses in Scotland. What is your current view of the Scottish Government's argument that Scotland would retain EU status? It is the Article 48 versus Article 49 argument about retention of EU membership versus applying to join.

Vince Cable: My understanding is no better or deeper than the common view, which is based on the legal advice that has been given that Scotland would have to reapply for EU membership. That is by no means a given, particularly as some other members of the European Union also have anxieties about breakaway movements within their own countries. No doubt membership could be achieved, but the point one wants to make about it is that it just creates a new tier of uncertainty, a level of uncertainty, which has big implications, particularly for business decisions.

Q164 Mike Crockart: You were talking about legal advice; what is the legal basis for that position that the UK Government holds?

Vince Cable: As I say, I am not a constitutional lawyer, and you are as familiar as I am with the various legal opinions that have been given. I know independent legal advice has been sought, independent of our UK Government, which confirms that. Again, we can put all this in writing for you, if you like, but I think it has been extensively gone over.

Q165 Mike Crockart: One of the difficulties is that, in a previous evidence session, for example, we heard evidence from Gordon MacIntyre-Kemp, who is a member of the Business for Scotland organisation. His argument was basically that we could get this sorted out if the UK Government, as the current member of the EU, were to go to the EU and ask for a proper opinion about what the status of Scotland would be in the case of a yes vote, but the UK Government is somehow refusing to do that. Is that your understanding? Have you gone to the EU to ask for a response?

Vince Cable: It is a slightly naive view about the way the European Union works. This is not an issue solely in the possession of the British Government; it would require the assent of all the other European countries, and we know that some of them would have some anxieties about the role of an independent Scotland. Why should the British Government be doing this? We are dealing with the status quo. We are dealing with the reality. Scotland is part of the UK, we want it to stay there, and there is no reason why we should be acting on hypothetical possibilities of that kind.

Q166 Mike Crockart: The whole point of this worry, as we have already said, is about uncertainty. If, in the case of a yes vote, we then entered into 18 months of protracted negotiations, as is foreseen, what would the implications of that protracted period of uncertainty be for UK businesses and Scottish businesses in particular?

Vince Cable: The British Government is not creating the uncertainty. We have a good, stable structure, which works very well for Scotland and the rest of the UK, and we want to keep it that way. One simply cannot predict, as in several other major areas of policy, what the consequences of that hiatus would be. Our understanding is that both legally and in terms of the politics of the European Union it would be quite difficult to migrate Scotland to independent membership. It may well prove to be trouble-free; we do not know. There is simply a big uncertainty around that whole process. It could take a long time, it could take a short time, but it is the uncertainty around it that is the problem. It would be damaging for the whole of the UK if that situation arose, and it would be especially damaging for Scotland.

Q167 Ann McKechnin: Just a very quick point, Secretary of State, the Scottish Government has unilaterally proposed an 18-month period of negotiation with the European Union, to ensure that membership is sustained if there was a separation. Are you aware of any discussions that the Scottish Government has had with the remaining 27 members of the European Union as to whether or not an 18-month timetable would be acceptable to them?

Vince Cable: I am not aware of any, but you are asking the right question. Their consent is required, and the Scottish Government could not take that for granted.

Q168 Mr Bain: Following on from Ann McKechnin's point, I received a written Parliamentary answer from the Minister for Europe, which indicated that the period of negotiation on the terms of re-accession could not begin until the date of Scottish statehood, which the Scottish Government anticipate would be in March 2016. If that is simply the starting point for the negotiations, does that not mean that Scotland would face being excluded from the EU single market for the period of those negotiations, and what impact would that have on manufacturing exporters in Scotland if that were the case?

Vince Cable: You describe a worst-case scenario. It is quite possible that the status quo would be maintained in the interim—I do not know—but if you are a business investor worried about risk and uncertainty then that is exactly the kind of question that you would be worrying about.

Q169 Rebecca Harris: Just going back to the questions of euro or sterling, it seems the Scottish Government's preferred option is a sterling zone, which retains the pound. In your view, would that be the most beneficial option for Scottish businesses in terms of their trade with the remainder of the EU?

Vince Cable: The best option by far for Scottish business is that they remain within the UK. A very substantial part of their business is accounted for by trade with the rest of the UK; something of the order of 30% of Scottish GDP is accounted for by trade with the rest of the UK. Clearly you would want an arrangement that maintains that. In terms of the other options we have discussed two already, one of which is the currency union, which is difficult to sustain, or

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

the option of a separate currency. They could join the euro; that would be another possibility, but the problem there is that trade with the rest of the UK is four times bigger than trade with the eurozone, so there would be quite a severe dislocation around the currency movements that would follow that.

Q170 Rebecca Harris: For the purposes of Scottish business viewing this as a future option, what do you think are the main practical obstacles that there might be for having such a currency zone?

Vince Cable: First of all, there is negotiating the arrangements; secondly, there are the business costs of fluctuating currencies. If they join the euro, which I think is the hypothesis you are putting forward, there is the effect that that would have on euro-sterling trade across the border. There is also the whole doubt about the problem within the eurozone as it currently is, and the fact that they are now moving to a much closer banking union and fiscal disciplines, which currently do not prevail and Scotland is not currently part of that discussion.

Q171 Rebecca Harris: In our previous evidence sessions, one of our witnesses suggested that the key obstacle of having a sterling zone with Scotland was actually political disagreement between the UK and Scotland. Do you think that is a fair assessment?

Vince Cable: Yes, and I think this goes over the ground we have had before: that in order to have a currency union with an independent Scotland, we would need to agree to have a banking union that has major implications, some of which we touched on. The most difficult of all would be the agreement on a fiscal compact and fiscal disciplines, because that touches straight on issues of national sovereignty. Scotland would have to accept obligations in respect of its deficit financing and in respect of debt, both of which would be highly contentious, and would probably be very difficult for managing the Scottish budget.

Q172 Mr Bain: We have heard already some of the issues and difficulties about a currency zone. To what extent would you say that, with an independent Scotland in a sterling currency zone, if it were achievable, the arrangements would differ in terms of relationships from the current devolution arrangements?

Vince Cable: Again, I am repeating myself, but the key requirements—and I think Mr Carney spelt this out very clearly—is, of course, you need to have two highly integrated economies. We do have that. It would need to have a banking union, because of the instability, and the fact that Scotland is currently host to major global banks, and the problems they present for financial stability. The key is you have to have a fiscal agreement. Maybe just to go with the reasons for that, the danger of having a currency union with a country where you do not have a fiscal compact is that Scotland, in this case, would seek to run large deficits and borrow against the UK Government's creditworthiness. Clearly, as the other side of it, the rest of the UK would want to make sure that did not happen, so they would want to, and would have to,

bind in an independent Scottish Government to some very tough fiscal disciplines.

All we know about the Scottish budget situation several years hence, and there is some discussion of it in here—there is one table and a couple of scenarios—is that it would be quite difficult to manage, because their receipts depend very largely on oil revenue, which is a depleting resource and increasingly high cost. In a world where we cannot predict the future price of oil, they would have to bind themselves in to very tough fiscal disciplines, in an environment where they have got only indirect control over their main source of revenue. It is very difficult to see how this could avoid quite severe cuts in public spending, but clearly that would depend on the assumptions you make on revenue.

Q173 Mr Bain: Indeed, and that has been the position of the IFS, who have said that moving towards a separate Scotland, whether it is under a currency union or any other currency regime, would mean that taxes would have to go up or spending would have to fall. I think the IFS are seen as a widely respected authority. If we can explore this issue a little further, is it not the case that the Government has found that whatever the currency system a separate Scotland would adopt, borrowing costs would go up? Obviously, that would have an implication on the lending that might occur from the banks in Scotland to businesses that were in Scotland, would it not?

Vince Cable: Borrowing costs through the bond market—we know in the UK we have got quite competitive rates that have been achieved in a rather painful way, but we do, and if you are an independent country starting to borrow, first of all the markets do not know who you are, and there is an uncertainty around that. The fact that there might be, and the Scottish Government have promised this, a serious argument about debt obligations and how much an independent Scotland would be willing to carry, could cast doubt amongst any creditors about whether this a serious borrower who could be trusted, and that would be reflected in the spread over the rest of the UK's borrowing rates. Other things being equal, you would expect borrowing rates to be higher than in the rest of the UK, and depending on how difficult the negotiation process was, they could be very substantially higher.

Q174 Mr Bain: Again, if a sterling currency union is not achievable, and some other system were adopted, whether it is a separate Scottish currency or sterlingisation, the implications for business lending are quite severe. If you look at some of the IMF literature on countries that have dollarised or euroised, we can see that the amount of capital the banks have got to hold is greater. Therefore that would mean that there would be less money available for banks to lend to businesses, would it not?

Vince Cable: Yes—you are ahead of me on the IMF reading, but certainly from my recollection of economics generally, the point you put is right. There are a few examples of dollarisation—I think Argentina did briefly for some time, and it was a disastrous experiment, and it has been even more disastrous

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

since. There are one or two examples of attempts to peg against another currency. Some have been successful: Hong Kong is a successful example of a currency peg with dollar, but they have very, very severe rules on capital liquidity to reflect that dependence. It certainly constrains what an independent country can do.

Q175 Mr Bain: You spoke earlier about the issue about the integrated labour markets and the integrated product markets that we have across the UK. It is very interesting, when you look at the Government's analysis paper on macroeconomic and fiscal performance, to look at some countries that have disaggregated and the effect on trade. If you look at, for example, page 60 of that analysis paper, when Czechoslovakia dissolved, the level of trade between each part of that constituent country diminished rapidly in the decade after the dissolution of that country. That is because there were barriers put up to trade, were there not? Is that not likely to be the same scenario if Scotland separated from the rest of the UK?

Vince Cable: Yes, but even if one puts it in quite a constructive way, and we do not create alarming stories of trade warfare—they are improbable, but there is a risk—and just assume that we moved into a single market operating between two independent countries, there is a useful comparator, which is with Canada. Canada, like the UK now, is a very devolved system, very federal, but the trade between Canadian states is something of the order of 20 times as intense as with the United States. Their relations with the United States are quite amicable, and they have the NAFTA agreement, and so on. Those hidden barriers are very substantial and do act as a barrier to trade, even with countries that are friendly and have trade agreements.

Q176 Ann McKechin: The Scottish Government's White Paper states they would create a Scottish regulator who would assume the key responsibilities of the Financial Conduct Authority. Given the importance of the financial services market to the Scottish economy, which you have mentioned in your earlier remarks this morning, and the services which they in turn provide to England—in fact, in many cases the bulk of their customers are in the rest of the UK—what is your assessment of the impact of companies working under two separate regulators?

Vince Cable: Of course, it does two things. It raises costs; somebody has got to pay for that regulator, and regulators are normally financed by levies on their industry—certainly that is true in the UK—and it does create uncertainty about what that regulatory regime might be. As you know, because you have interrogated people at the UK level, the rules are often very complex. There are two problems, and that is why some of the leading fund managers in Scotland have spoken up with some alarm and, of course, they depend on the UK market. I think 87% of the exports of Scottish enterprises—in the financial services and insurance sector—are in the rest of the UK market, and only 13% internationally.

Q177 Ann McKechin: You made a very interesting comment earlier this morning about the issue of the treatment of ISAs, and obviously this is a very important product in the financial services market. For many companies in Scotland, as I have said, most of their customers are based in the rest of the UK. If they became a foreign registered company, with selling these products, and vice versa where Scots held ISAs in companies that are registered in other parts of the United Kingdom, clearly there would be an impact if the tax treatment of these particular products changed.

Vince Cable: Yes. As I said earlier, ISAs are designed, I think the regulations specify, for UK customers living in the UK.

Ann McKechin: Domestic use, yes.

Vince Cable: The existing tax arrangement would fall, and Scotland might wish to reintroduce them, but that would be their concern.

Q178 Ann McKechin: Yes, but that would be tax treatment for their own taxpayers in Scotland, but it would not be the same for taxpayers who are in the rest of the UK?

Vince Cable: That is correct.

Q179 Ann McKechin: Thank you for that clarification. The White Paper also argues that the Scottish regulator would be closely harmonised with the UK regulators and retain a broadly integrated market across the sterling area. Of course, this is in the presumption that there would be a shared sterling area, and we have obviously talked about that. In the longer term, do you see that there could be inherent friction as the economy started to diverge? Clearly the intention is at some point the economies would start to diverge.

Vince Cable: Yes. The divergence could happen in a variety of ways. If, as we feel is likely, Scotland did acquire its own currency, because that is what independence would really lead to, that clearly affects the rate of exchange. Potentially with an oil-based economy on one hand, and a more broadly-based UK on the other, those divergences in exchange rates can be very considerable, and affect business costs on both sides of the border. The divergence would take a more extreme form if you had different exchange rates, but we have argued that that would be almost certainly an inevitable consequence of independence, because the currency union is not really sustainable.

Q180 Ann McKechin: Another important point for investors, as well as the tax status of the products they purchase, is the compensation scheme, and obviously investors here in the UK benefit from the current financial compensation scheme. The White Paper proposes that there would be some merit in a jointly operated or coordinated scheme across the sterling area for key aspects of compensation. Do you think that that is either practical or desirable?

Vince Cable: To have a proper banking union, you would have to have agreement on compensation, presumably for depositors, were a bank to fail. That is inherent in what the banking union means. How practical it would depend probably on the future of RBS, which so swamps the rest of the banking

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

system in Scotland. If it were relocated to London, then the issues would be less onerous, but if it remained within Scotland, clearly the one big epic event would be a collapse of that bank and the obligations that would follow in terms of depositor compensation—a highly improbably event maybe, in view of what has happened to shore it up, but that would be the big issue that the regulators would have to focus on.

Q181 Ann McKechnin: Presumably if such a scheme did take place the level of funding and the levy on business would obviously, as you say, be quite different if RBS was headquartered in Scotland or, alternatively, if it was headquartered in another part of the UK. Would it be a 50–50 basis between Governments, or would it be proportionate to the size of the country, or the economy, or the population, or the size of the financial services sector?

Vince Cable: We are not in negotiating territory. As a matter of principle, we are not setting out definitively how those things would operate, but the mere fact that you asked the question with five potential answers raises the issue, which is that there would be a high level of uncertainty.

Chair: Minister Willetts, you have been waiting there patiently; this is your moment in the spotlight. Can I bring in Paul Blomfield on higher education?

Q182 Paul Blomfield: Let us start with the issue of fees charging. The Scottish Government's White Paper, as you know, says that they will maintain their current policy of charging fees for Scottish institutions to students from the rest of the UK. Is that legal in your view?

Mr Willetts: The view seems pretty clear that if Scotland were to be a separate state within the EU it would not be legal, because there is a very clear legal framework within the EU that you cannot discriminate against members of other member states. I quote the spokesman for the European Commissioner for Education, who said that, "Unequal treatment based on nationality [...] is regarded as discrimination, which is prohibited by Article 18 of the Treaty on the Functioning of the EU".

Q183 Paul Blomfield: There has been some suggestion, in a way that looks a bit like grasping at straws, that there is a possibility that Scotland could, in discussion with the European Union, seek what is described as an objective justification for maintaining this policy. You will probably be aware that that has been tried by other EU member states—I think Austria and Belgium—and failed. Can you see any reason why it would succeed for Scotland?

Mr Willetts: No, we cannot see any reason why it would succeed in Scotland, and that is not just the view of us or the European Commission; in my understanding, it is the view of the vast majority of legal experts. The professor of European Union law at Edinburgh saying that the Scottish Government would face "an extremely steep uphill battle" to convince the EU that they could carry on charging students from the continuing UK.

Paul Blomfield: And it would be unprecedented in the UK.

Mr Willetts: It would indeed be unprecedented. It does appear to be contrary to EU law. As well as all the legal issues, the other point is that, if you imagine that this scenario were to occur and the Scottish Government were trying to do this, they would have just secured independence, we have been talking about all these negotiations going on, we are told that they would like continuing friendly relations with the rest of the UK, and then one of their first acts would be to try to do something that specifically discriminated against English students going to Scottish universities, and gave them different treatment than French and German students going to Scottish universities, despite the fact we are all member states, on their intentions, of the EU. It would be a very odd way to try to conduct yourself, and it would be a bad start for your relations with a fellow EU state.

Q184 Paul Blomfield: Perhaps I can move on to look at another example, or another area of higher education funding, where the Scottish Government would be, just following on from your last point, looking for very positive engagement with the rest of the UK, and that is on research funding.

The Scottish Government's White Paper says they want to retain a common research area of funding through the UK research councils. They also go on to say on this specific issue something along the lines of a fair funding formula based on population. You will know that currently Scottish universities disproportionately benefit: I think they get about 13% of UK Research Council funding, and only have about 8.4% of the UK population. Do you think that is sustainable going forward?

Mr Willetts: No, again, we do not think that is sustainable. We have, of course, set out in our "Science and Research" paper for Scotland absolutely the figures that do show that, at the moment, it is an integrated UK system and the allocation of funding is by excellence. There are excellent research institutions in Scotland, and so it does better than its percentage of GDP, as you say—13% against 8%.

If Scotland were to separate, of course one would hope for continuing research collaboration, but it would be between two separate countries. The basis on which we do research collaboration with France or Germany or the US, in general, is we pick up the costs incurred in our country, and the French or the Germans pick up the costs incurred in their countries. You have to come to some kind of overarching project, but that is how you allocate costs. That would be how it would have to work in this case. The rest of the UK would not be using the rest of the UK's research budget to pay for institutions in Scotland.

Q185 Paul Blomfield: That is pretty clear. Could I move to an issue that we have discussed a lot recently: the student loan? If Scotland votes yes for independence, what would happen to student loans attached to Scottish universities? Would they remain a UK liability, or would a proportion be transferred to the Scottish Government?

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

Mr Willetts: Let me report on the current arrangements, because with all these things future arrangements would have to be negotiated. At the moment, we already have a very clear sense, in the Student Loans Company, of English loans and Scottish loans. I consult and inform my opposite numbers in the other Administrations when we are thinking, in England, of doing something for English loans. For example, for the sale of the mortgage-style loan book, when I consulted other parts of the UK who also had some of these unpaid mortgage-style loans, we agree on a UK-wide sale, and Scotland got some of the proceeds; we estimate it was about £22 million out of £160 million.

For the pre-Brown income contingent loans, which indeed we talked about recently, at present the sale of the initial tranche of the income contingent loan is focused solely on the English loans, and we have a distinct identity; there are separate Scottish loans, and Scottish Ministers have decided not to participate in the loan sale. They have already a separate lien on loans issued by Scottish institutions, and if they do not want to sell them under the devolved settlement, they do not have to sell them, and that is not their plan.

Q186 Mr Walker: The Scottish Government has given an undertaking to renationalise its share of Royal Mail if it were to win the referendum. Have you made an evaluation of the percentage of Royal Mail that would be Scottish in that respect?

Vince Cable: No, we have not. We do not expect or want this to happen. Of course, it would depend on the value of the company, a subject I know your Committee have a great deal of interest in, but, no, we have not committed to that exercise.

Q187 Mr Walker: They have talked about the need for negotiations with the UK Government to establish what Scotland's share of the UK Government's remaining stake would be, but presumably there would also be a need for negotiation with shareholders and substantial compensation, if they were to go ahead with any such move?

Vince Cable: Yes. There are two sets of problems: one is the one you describe, which is nationalising one part of it, and all the problems of identifying the respective share; the other is identifying the Scottish universal service obligation, and who would then pay for it. Overall, it is about the cost of the delivery system through the universal services—about £7 billion. The Scottish share of that is roughly £630 million, plus any additional costs that come from higher deliveries in the Highlands and so on. There would be an issue about how they would pay for the universal service obligation, which is the public duty of the Royal Mail.

Q188 Mr Walker: Just on the universal service obligation, I notice that the White Paper makes a number of statements about what they would try to achieve, including a greater priority given to improving geographical coverage. Given that Scotland already contains some of the most remote and rural areas in the UK, how sustainable would that make a

Scottish Royal Mail if it was trying to improve its service to that and run it? What would be the cost of doing it?

Vince Cable: It would be significantly costly. We have tried to establish with the Royal Mail what the extra unit cost of the USO is in Scotland. We have not got a figure from them, and they argue it is just too complicated, and I am sure it is. Clearly, yes, there would be a considerable extra cost. There is one other issue, which I noticed recently—I had not previously spotted—that there is a serious imbalance in the trade in mail between Scotland and the rest of the UK. Scotland imports three times as much mail as it exports; people send them more letters and parcels than come back. That, of course, has to be distributed, so there is the extra cost of the distribution of the incoming mail.

Q189 Mr Walker: Would that be likely to result in a different stamp price in Scotland if you had two different systems and that type of imbalance?

Vince Cable: Either that or a bigger subsidy, which raises the question about how you finance the subsidy.

Q190 Mr Walker: Just a final question: obviously one of the reasons why successive Governments of different political parties have tried to bring private capital into Royal Mail is to finance new equipment and new change to make the service more sustainable. Without that private capital, what sort of scale of investment would Royal Mail need from the Treasury, whether it be UK or Scottish, to deliver change in the public sector?

Vince Cable: It would add to their borrowing costs, and we had the discussion earlier about the costs of a newly independent country trying to borrow externally and, of course, that would add to it, or else the investment would not happen and you would get a deteriorating service over time.

Q191 Chair: Just picking up on Robin's questions, Consumer Futures has stated that in the event of Scottish independence, and I quote, "the entire regulatory, governance, policy, and contractual framework for postal services and the Post Office network would need to be revisited". Have you made any estimate of the costs to Scotland of replicating those separately in Scotland?

Vince Cable: We have tried to be more precise than the estimates I have just given you, and we have not obtained detailed information. There are the Royal Mail USO issues, which we have just discussed, but there is also the issue about sustaining the Post Office network, which, as you know, we have heavily subsidised and tried to modernise. That is a continuing obligation that we have tried to keep going in this Government, despite the pressures on public finance, and an independent Scotland would have to find a way of financing that itself, particularly given that quite a high percentage of the remote post offices that are not commercially viable would be in Scotland.

Q192 Chair: Would post from an independent Scotland be classified as overseas mail?

5 February 2014 Rt Hon Vince Cable MP and Rt Hon David Willetts MP

Vince Cable: It would have to be, actually. There is a question of inward and outward. If one was sending mail into Scotland, it would be sent on the basis that this is a European country, assuming they have overcome all the problems of European membership. Assuming those are overcome, it would take place in the same way that we would send letters to France and Germany. They would obviously have to make a decision themselves as to the basis on which they send mail from Scotland to the rest of the UK. Ireland has an “all Ireland” rate, and it would be up to them whether they wish to copy that arrangement.

If I can just explain a little bit, Northern Ireland operates on the basis that Southern Ireland is part of Europe, whereas Ireland, in its postal system, acts on

the assumption that Northern Ireland is part of Ireland. It is a perfectly amicable arrangement, but the question is whether you would want to duplicate a version of that in the UK, but that would be for the Scottish Government to decide.

Chair: That would be ironic.

Vince Cable: It would be ironic.

Chair: On that note, Minister, I have no further questions. Does any member of the team? No. In that case, Ministers, can I thank you very much for your observations? Obviously we will do a report in due course, and we would welcome the Government’s comments on it. Thank you very much; that was very helpful.

Written evidence

Written evidence submitted by UK Government

I wanted to write to you to advise you of my Department's position in relation to the inquiry you are holding on the Scottish independence referendum.

As you will be aware, the UK Government is publishing several papers as part of the Scotland Analysis Programme, which aims to inform voters in the 2014 referendum of the shared benefits Scotland and the rest of the UK enjoy as part of the Union, and some of the possible implications of creation of an independent Scottish state which chooses to leave the UK.

As part of this programme, my Department, working with the Department for Transport and the Department for Culture Media and Sport, has been looking at Scotland's business and microeconomic framework as part of the UK. We will shortly be publishing a Command Paper which I believe will fully address the issues raised in your inquiry.

This Paper builds on the arguments contained in the previous publications, notably the February legal paper, and specifically will cover the UK's large, unified domestic market; and the benefits access to this brings to Scottish businesses. It will look at how the performance of this market is driven by strong, shared administrative, regulatory and tax regimes, a unified labour market, and integrated infrastructure (including telecommunications, transport and postal services); and, will consider what some of the potential implications of separation from the UK could mean for Scottish business and consumers. The paper also covers innovation and technology with a business focus. However, the Committee should note that a separate paper on higher education, research and innovation, building on this paper, will be follow later in the year.

We are looking forward to working with you on this important inquiry, providing oral evidence and reading your final report.

The Rt Hon Vince Cable MP
Secretary of State for Business, Innovation and Skills

10 June 2013

Written evidence submitted by John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, Scottish Government

SCOTTISH GOVERNMENT RESPONSE

A White paper setting out the Scottish Government's proposals for independence will be published this autumn with the referendum taking place on September 18th 2014.

The Scottish Government believes that the people who live in Scotland are the best people to make decisions about Scotland's future and that Scotland should therefore have all of the responsibilities and rights of a normal, independent European state: such as economic, tax and social policies, as well as its own voice in the world and representation for Scotland in the European Union.

However, independence is not an end in itself, but a means to achieve change in Scotland. The Government has set out its vision for the Scotland it would work towards after independence. The Government believes that only independence would allow Scotland to fulfil its potential and to meet this vision.

Over the coming months the Government will set out the arguments for independence, and proposals for ways in which the powers of independence can be used to address the challenges in Scotland's economy and society, and achieve the Scottish Government's vision for Scotland.

Following the Edinburgh Agreement the Scottish Government has published proposals for the transition to independence <http://www.scotland.gov.uk/Resource/0041/00413757.pdf> to be complete by March 2016 and the Scottish and UK Governments are currently agreeing a statement on the principles to be adopted following a vote for independence.

As part of our constitutional work, The Scottish Government has published a number of documents which lay out our strengths and the opportunities for Scotland which will help inform your enquiry. These will be of particular assistance to the committee in your consideration of Scotland's economy, Scotland's finances and the macro-economic framework of an independent Scotland.

In its report on Scotland's macroeconomic framework the Fiscal Commission Working Group (FCWG) analysis concluded that:

- By international standards Scotland is a wealthy and productive country; There is no doubt that Scotland has the potential to be a successful independent nation;
- Even when North Sea oil is excluded, GVA per head in Scotland is 99% of the UK average and the highest in the UK outside London and the South East;

- However, over the last 30 years Scotland has grown more slowly than the UK as a whole, and
- Many countries of a similar size have made use of the full range of fiscal and policy levers to perform more successfully.

Under independence, The Scottish Government will be able to use the full range of fiscal economic levers to improve the performance of our economy, which has persistently lagged the growth rates achieved in comparable countries.

The Scottish Government is clear that independence will bring significant opportunities to both to our business community and to the people of Scotland as a whole.

The full range of papers on economic issues relating to independence can be found below. The Scottish Government has been engaging with a wide-range of stakeholders, including those who are providing evidence to the committee throughout this enquiry, and we will continue with this engagement in the lead up to the referendum next year.

- Fiscal Commission Working Group's Report on the Macroeconomic Framework: <http://www.scotland.gov.uk/Topics/Economy/Council-Economic-Advisers/FCWG>
- Economic and Competition Regulation in an Independent Scotland: <http://www.scotland.gov.uk/publications/2013/02/1911>
- Scotland's Balance Sheet: <http://www.scotland.gov.uk/News/Releases/2013/04/BalanceSheet120413>
- Government Expenditure and Revenue Scotland: <http://www.scotland.gov.uk/Publications/2013/03/1859>
- Scottish Government Response To The Fiscal Commission Working Group On Currency: <http://www.scotland.gov.uk/Publications/2013/04/5881>
- Scotland's Economy: the case for independence including Scotland's Balance Sheet: <http://www.scotland.gov.uk/Publications/2013/05/4084>
- The Scottish Government has also adopted a clear economic strategy. This can be found at: <http://www.scotland.gov.uk/Publications/2011/09/13091128/0>

The Scottish government believes key sectors of Scotland's economy are currently unable to reach their full potential as a result of decisions by the Westminster government.

In a number of areas the Scottish Government believes current policy positions taken by Westminster are detrimental to Scotland's interests. Independence would offer future Scottish Government's the opportunity to adapt policies in support of Scotland's economic interests.

AIR PASSENGER DUTY

Scotland's airports and airlines serving Scotland have made a clear case that levels of Air Passenger Duty inhibit Scotland's ability to attract new flights in a highly competitive market and increase costs for tourism and business. This position is supported by all of Scotland's airports and is highlighted as a major concern in a recent report by SCDI. APD has also been identified as one of the economic levers that could help to rebalance the focus of the economy from London and the South East. Recent studies by York Consulting;

http://www.glasgowairport.com/static/Glasgow/Downloads/PDF/APD-York_Aviation-report-Oct-2012.pdf and PWC;

<http://corporate.easyjet.com/~media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-Abridged.pdf>

demonstrate the negative economic impact of APD and the benefits that could come from better aligning policy to Scotland's needs. APD has been devolved to Northern Ireland. Despite the recommendation of Calman back in 2009, the UK Government has still not seen fit to devolve Air Passenger Duty to Scotland. There is a strong body of support in Scotland for control of APD to be passed to Scotland including from our 4 largest airports. Control of APD would enable the development of a regime which is designed to reflect the needs of our aviation sector and passengers and the wider importance of aviation to our economy. A one size fits all policy does not work.

CAPITAL INVESTMENT

The Scottish Government is clear that capital investment offers significant opportunities to boost economic growth. Despite significant real terms cuts to capital budgets by Westminster of 25.1% over the four years of the UK spending review (2014–15 compared to 2010–11, excluding financial transactions), we are maximising our capital spending to support infrastructure investment and jobs.

When the financial crash took place, the Scottish Government was quick to recognise that capital spending would be a key driver, both of the recovery and of long-term growth.

Both the former Labour government and the current Coalition government took the decision that capital spending would take a disproportionate share of the cuts. The Coalition has largely followed the Labour blueprint on capital spending since it came to office. The Scottish Government took a very different view. We

saw capital spending on infrastructure as vital to supporting the economy and an important engine of economic growth. We took action to support capital investment.

Had the 2009–10 levels of capital spending been maintained, this would have produced cumulative increased investment of £7 billion in the five years to 2014–15. This corresponds to approximately £1.4 billion a year. Additional capital investment of such magnitude would have supported an additional 19,000 jobs over the subsequent five years. And, as Scotland's Balance Sheet demonstrates, this increased level of investment could have been achieved in the context of Scotland's £12.6 billion relatively stronger fiscal position vis-a-vis the UK in the five years to 2011–12.

HIGHER EDUCATION

Scotland welcomes international students and researchers to our world class universities and values the significant cultural, economic and intellectual contribution they make to our institutions and our nation.

Both Scottish Government Ministers and our university sector opposed, and continue to oppose, the UK Government's changes to international student visas. It is vital that Scotland has an immigration and citizenship policy that suits Scotland's needs.

The impact of the negative message that the UK Government's student visa policies send to other countries is a significant concern for the higher education sector. There is evidence that student numbers from some countries which normally send high numbers of students to Scotland have decreased in recent years, which may reflect the changes to student visa rules implemented since 2010.

Higher Education Statistics Agency statistics show that the number of students from India in Scottish HEIs decreased from 3290 in 2010/11 to 2445 in 2011/12—a reduction of 25.8%; and the number of students from Pakistan in Scottish HEIs decreased from 860 in 2010/11 to 645 in 2011/12—a reduction of 24.9%.

POSTAL SERVICES

The Scottish Government is deeply concerned by UK Government proposals to privatise the Royal Mail and the impact this could have on the Universal Service Obligation, particularly in rural communities, and the availability of Royal Mail services through Post Offices. We are aware that such concerns have also been raised by the CWU and the NFPM. Scotland's Post Offices have faced repeated rounds of closures by the UK Government. 149 closed in 2002–05 and a further 269 closed in 2007–09 whilst five crown Post offices are currently under consideration for closure.

In these areas—and others such as research and development, targeted tax incentives such as support for tourism or construction, regulation and the ability to incentivise economic growth in key areas it is only with the full powers of independence that future Scottish government's will be able to properly support the Scottish economy, to counter the focus of economic policy on London and the South East, and to ensure Scotland reaches its full potential.

18 June 2013

Written evidence submitted by The Communications Union (CWU)

THE IMPLICATIONS OF SCOTTISH INDEPENDENCE ON POSTAL SERVICES

OVERVIEW

1. The CWU is the largest union in the communications sector in the UK, representing over 200,000 employees in the postal, telecommunications and financial services industries, including over 17,000 members in Scotland, and is the recognised union for all non-management employee grades in the Royal Mail Group.

2. The Business, Innovation and Skill Committee Select Committee are seeking views on the implications of Scottish Independence on business, higher education and research and postal services.

IMPACT ON BUSINESSES

3. An independent Scotland would clearly have wide reaching effect for Royal Mail, the Post Office and other businesses operating in the postal sector. Currently so many factors remain unknown, including the legal and regulatory framework of an independent Scotland, that companies are reluctant to speculate publicly on the implications of independence, as the House of Lords Economic Affairs Committee recently noted.¹

4. It should be noted that neither the UK government nor the Scottish Executive have published reports in any great detail on the future of the postal and telecom networks in an independent Scotland. At the present time we can only speculate about the challenges these sectors may face based on the limited evidence available.

¹ The Economic Implications for the United Kingdom of Economic Independence, 10 April 2013, pg 8.

DEMAND FOR POSTAL SERVICES

5. While mail volumes have fallen in recent years, there is continuing strong demand for postal services in Scotland, as in the rest of the UK. Consumer Focus Scotland research in 2010 showed 49% of consumers in Scotland send mail every week, with 80% of consumers saying the Post Office plays an important role in their local community.²

6. In addition, 46% of Scottish consumers reported the amount of mail they receive is increasing, compared to 35% of English consumers. In line with the general increase in parcel volumes, 43% of Scottish consumers state they would do more shopping online in the future,³ despite there being evidence of poor coverage for residents in rural Scotland as, will be discussed.

7. Mail also remains integral to businesses, with the Federation of Small Businesses reporting 98% of their members use mail services on a weekly basis and repeated research showing that businesses place a high value on daily collections and deliveries and would resist changes to the basic universal service provision.⁴

EU STATUS AND IMPLICATIONS FOR POSTAL SERVICES

8. The European Union (EU) status of an independent Scotland has implications for the future of the postal service. The Scottish Executive believes an independent Scotland would remain part of the EU, whilst the UK Government believes they would have to apply to join.

9. However there is currently no provision under EU law for a part of a member state becoming independent. The European Commission has been reticent to give an opinion until the nature of the separation has been agreed by Scottish and UK ministers.⁵ However in 2004 the Commission stated, in response to a question by a Welsh MEP, that a separating region would be outside the EU from the day of independence, and would then need to apply for membership.⁶

10. Were an independent Scotland to apply to become an EU member state, then the state would be required to ensure a universal postal service existed and to operate to certain prescribed standards. The state would also be subject to competition rules governing the internal market in postal services.

11. Under European regulations the universal service provider is required to provide one delivery per day not less than five working days a week.⁷ Existing UK law, which requires a six day a week delivery to the home or premises of every individual in the UK, would not apply in an independent Scotland. Similarly, UK law requiring a uniform tariff for postal services would no longer apply as there is no such obligation under the European Directive.

12. Other areas that would be open to change include the provision of postal items up to 20kg rather than the 10kg EU minimum, and the future of the free-of-charge postal service to blind or partially sighted people and free carriage of legislative petitions and addresses.

13. The EU Postal Directive also requires that for intra-community cross-border mail, 85% of mail items should be delivered within three days of the date of posting and 97% of mail delivered within five days of date of posting.⁸

14. An independent Scotland would also have to join the Universal Postal Union (UPU) and pay terminal dues⁹ as both an inward and outward postal destination. However future arrangements for cross-border mail between an independent Scotland and the rest of the UK are unclear.

THE UNIVERSAL SERVICE

15. As discussed above, the extent of minimum universal service requirements in an independent Scotland would depend on whether the country was to be a member of the EU. The UK Government has legislated to extend the universal postal service beyond the minimum set at an EU level.

16. The government of an independent Scotland would need to choose whether to similarly extend the universal service minimum requirements. The regulator Ofcom also places additional requirements on the UK USO that would need to be considered by an independent Scotland. These include: a next-day delivery service, a distinction between first and second class post, the cap on the price of second class stamps, charges to other postal operators to deliver their sorted mail, the geographical or special circumstances where the USO does

² Scottish Postal Services: Consumer Survey 2010, Consumer Focus Scotland.

³ Scottish Postal Services: Consumer Survey 2010, Consumer Focus Scotland.

⁴ Business Customer Needs from a Universal Postal Service in the UK, Postcomm & Consumer Focus, November 2010.

⁵ <http://www.telegraph.co.uk/news/politics/9109197/European-Commission-refuses-to-confirm-independent-Scotland-membership.html>

⁶ Answer by Romano Prodi, 1 March 2004.

⁷ Directive 97/96/EC, subsequently amended by 2002/39/EC and 2008/6/EC. See: http://ec.europa.eu/internal_market/post/legislation/index_en.htm

⁸ Ibid.

⁹ Since 1969, the designated operator that sends a letter-post item to another country remunerates the destination Post for processing and delivering that item. This system of remuneration is known as terminal dues.

not apply, imposing quality of service targets and the density of access points to meet the reasonable needs of users.

CROSS-BORDER MAIL

17. A future Scottish government may seek to negotiate a position similar to that of the Isle of Man and the Channel Islands, where postage rates are the same as to and from UK destinations.¹⁰ However the Scottish Executive has indicated they believe facilities for cross-border mail would be similar to those for mail sent between the Republic of Ireland and Northern Ireland.¹¹

18. Under this system, posting a standard letter from Northern Ireland to the Republic of Ireland is categorised as an 'Airmail Service' within the EU and charged 56p by Royal Mail. Whereas the Republic of Ireland's An Post operates an 'all-Ireland' inland rate for mail, which distinguishes Northern Ireland from the rest of the United Kingdom, charging standard letters from the Republic of Ireland to Northern Ireland at €0.55, and letters to England, Scotland and Wales at the full EU interstate price of €0.82.

19. However there is evidence that much confusion exists about the correct tariffs for cross-border mail in this model.¹² In addition, no formal standards of service are required by either the UK or Republic of Ireland regulators of their respective postal operators. Whilst the cross-border mail service exceeded EU performance targets, it did not meet the standard considered acceptable by consumers.¹³ Any government in an independent Scotland would need to address these issues.

20. There is the prospect that mail from Scotland to England would be classified as international post. There are a number of international and European agreements enabling the transmission of post internationally, based on a system of terminal dues involving payments from one operator to another based on a proportion of the cost of postage in the sender country. Countries which do well under this system are those which have relatively low postage costs, and those which are net exporters of mail, both of which are currently the case in the UK. The trend in recent years has been for net exporters of post to increase substantially:

a. Table 2:
BALANCE OF TRADE, UK INTERNATIONAL MAIL 2009–2011

	2009	2010	2011
No. of letter-post items, international service—dispatch	451,566,000	439,782,000	486,678,000
No. of letter-post items, international service—receipt	302,384,000	275,921,000	266,091,000
No. of exported letter-post items	149,182,000	163,861,000	220,587,000

Source: Universal Postal Union postal statistics database

21. Data is not currently available on the balance of post between Scotland and the rest of the UK and the net cost effects of an independent Scotland are therefore difficult to predict. It should be noted that as Government agencies are significant users of postal services, any transfer of responsibilities from England to Scotland would affect the volume of cross border mail. However international letter mail amounts to only 2% of global mail volumes,¹⁴ so any costs or benefits of cross border mail would be insignificant compared to the costs of delivery to the more remote parts of an independent Scotland.

FUTURE OF ROYAL MAIL

22. Spokespeople for the Scottish Executive have said they do not anticipate any significant change from the current UK-wide system; that existing methods of delivery for the people of Scotland would continue uninterrupted;¹⁵ and that an independent Scotland would inherit its "fair share" of assets from the UK Government.¹⁶ However, there would likely be substantial changes to the postal service if the Scottish people voted yes in the referendum.

¹⁰ <http://www.postcodes.royalmail.com/personal/help-and-support/I-need-advice-sending-mail-to-the-Channel-Islands-and-Isle-of-Man>

¹¹ <http://postandparcel.info/54031/news/regulation/critics-of-scottish-independence-warn-about-mail-delivery-plans/>

¹² Consumer Focus Post research in 2010 found that much confusion exists amongst Northern Ireland consumers around the correct tariff for cross-border mail, with half of businesses (48%) and three in four (72%) consumers not familiar with the correct tariff. A large majority (87%) of consumers also considered it unsatisfactory that mail to the Republic of Ireland was more expensive than mail within the United Kingdom and 77% suggest that tariffs should be the same.

¹³ Consumer Focus Post research found that whilst cross-border mail service exceeded the EU performance target of delivery of 85% of mail within three days of posting, almost one-quarter (23%) of all mail sent from Northern Ireland to the Republic of Ireland was not delivered within two days, which was the delivery time considered more acceptable by consumers.

¹⁴ WIK Consult, Study on the External Dimension of the EU Postal Acquis, November 2010, pg. 19.

¹⁵ <http://www.heraldsotland.com/politics/political-news/fears-for-royal-mail-post-2014-x.20327512>

¹⁶ <http://postandparcel.info/54031/news/regulation/critics-of-scottish-independence-warn-about-mail-delivery-plans/>

23. In an independent Scotland, Royal Mail would no longer be bound by Westminster legislation which imposes a duty on the company to provide the universal postal service. A new Scottish postal services provider would likely need to be established. However, the significant set up costs that would be required suggests more likely options are either a service agreement with Royal Mail or the transfer of the existing Royal Mail network to a new Scottish company, which may affect Royal Mail jobs in Scotland. We would expect the Scottish Executive to be in discussion with Royal Mail on these issues.

24. The planned privatisation of Royal Mail would also have significant implications for an independent Scotland if it goes ahead. It is likely a privatised Royal Mail would seek to divest itself of responsibility for universal postal services in an independent Scotland in line with its commercial interests. Royal Mail has consistently argued that the USO operates at a net loss, with the recent decline in letter volumes only offset by price increases.¹⁷ The cost of providing the USO is likely to increase as mail volumes continue to decline and are not matched by falling costs.

25. Although it is not possible to identify a Scottish element of the USO cost, the unit costs of delivering the universal postal service are likely to be high in Scotland compared to the rest of the UK because of the prevalence of remote rural areas with low population density. The cost of delivery to these areas is currently subsidised by customers elsewhere in the UK so that a single price applies regardless of geographic location. However, this would not apply in an independent Scotland and the result may be significantly higher stamp prices for customers in Scotland, or substantial costs to the Scottish taxpayer.

PARCEL DELIVERY

26. Currently Royal Mail is required by UK law to provide universal service products at a uniform tariff regardless of geographic location. For many residents of Scotland's remote areas, Royal Mail parcel products provide the only viable means of delivery.

27. A report by Citizens Advice Scotland in 2011 found that 83.8% of people surveyed living in remote parts of Scotland had been refused delivery altogether by a retailer using a carrier other than Royal Mail, and that increased charges are the norm.¹⁸ Since then the situation has not improved, with a follow up report in December 2012 finding that 63% of the 534 retailers investigated charged extra for delivery to certain parts of the UK.¹⁹ The top 10 postcodes, to which the small firms surveyed refused to send goods, cover a total of over one million excluded residents.²⁰

28. This affects these communities' ability to access e-commerce, and is exacerbated by the fact these areas often have the most to gain from e-commerce, since the local provision of retail facilities is limited and travel costs to retail destinations high. Just over 86% of people living in these areas order products or services online more than 10 times a year.²¹ Consideration therefore needs to be given to how parcel delivery and access to e-commerce would work in an independent Scotland.

29. More information is also needed about the future of Royal Mail Postbus routes in an independent Scotland. Currently they carry more than 50,000 passengers a year in the UK, with a number of bus routes in Scotland, and are used by people who do not drive as well as tourists.²²

FUTURE VIABILITY OF THE POST OFFICE NETWORK

30. The Post Office network is highly valued by residents of Scotland. In recent surveys, 49% visited the post office weekly, with 87% of respondents visiting once a month.²³

31. At the end of March 2012 there were 1,425 Post Office branches in Scotland, down from 1,433 branches in 2011 and 1,446 branches in 2010.²⁴ Of these branches open in 2012, 67.6% were in rural areas, 21% in urban areas, and 10.5% in deprived urban areas. The proportion of rural branches in Scotland is substantially higher than the UK average of 54.6%, and the proportion of urban branches well below the UK average of 34.1%.²⁵ Currently five Crown Post Offices in Scotland are facing closure and franchising in retail outlets at alternative locations under the Post Office's Network Transformation programme.²⁶

32. The financial position of the Post Office network in Scotland is precarious because of the high proportion of rural branches, in which revenue tends to be low. The last Postcomm Annual Report on the Post Office

¹⁷ Preliminary results for Royal Mail for the year ending 31 March 2013 show addressed letter volumes declined 8% on a like-for-like basis but revenues rose by 3% due to a substantial increase in stamp prices that would not apply year on year.

¹⁸ Free Deliver Survey, Citizens Advice Scotland, November 2011.

¹⁹ The Postcode Penalty, Citizens Advice Scotland, December 2012, pg 19.

²⁰ Ibid.

²¹ Free Deliver Survey, Citizens Advice Scotland, November 2011.

²² The routes currently operated by Postbus in Scotland are available at <http://www.royalmail.com/you-home/your-community/postbus>. They are subsidised by local authorities.

²³ Scottish Postal Services: Consumer Survey 2010, Consumer Focus Scotland.

²⁴ For the 2011 and 2012 figures see The Post Office Network Account 2012, Post Office Ltd., pg 11. For the 2010 figure see Postcomm Annual report on the Post Office Network 2009/10, pg. 20.

²⁵ The Post Office Network Account 2012 pg 12.

²⁶ The affected post offices are in Cumbernauld, East Kilbride, Stornoway, Perth and Alloa. See: <http://www.postoffice.co.uk/transforming-post-office>

Network in 2010 found that less than 23% of rural branches generated over £40,000 per annum, compared with 69% of urban branches and 65% of urban deprived branches.²⁷

33. As with the postal service, the effect of Scottish independence would depend on whether responsibility for the post office network remained with Post Office Ltd., or transferred to a new company. Post Office Ltd. is currently entirely owned by the Crown and it is not yet clear what arrangements would apply post-independence.

34. The post office network remains reliant on Government subsidy, without which it would be loss making. Its first six month trading statement since separating from Royal Mail in April 2012 showed operating profit up £5m to £61m, but this was accounted for by a £13m increase to £103m in its taxpayer subsidy.²⁸ Whilst figures are not available for the Scottish element of the UK Government subsidy, whoever took responsibility for post offices in an independent Scotland would need to provide substantial subsidy to maintain the network at its current level. It is not yet clear from the Scottish Executive how the post office network might be funded in an Independent Scotland.

35. Consideration must also be given to the future of the ten-year commercial agreement between Royal Mail and Post Office Ltd. signed in 2012 and which is crucial to the survival of the post office network. It is unclear whether this relationship would hold in an independent Scotland given changes in the legal framework and the potential for a change in the company providing postal or post office services.

36. The planned privatisation of Royal Mail also poses a threat to the post office network in Scotland. If a privatised Royal Mail, freed from political considerations, were to end its relationship with the Post Office, then the rural branch network would be at significant risk; this would have serious implications for postal services in Scotland.

STAMPS

37. It is not yet clear if the Queen would remain the Head of State in an independent Scotland and her image used on Scottish postage stamps. The Postal Services Act 2011 introduced a requirement that UK stamps must feature the image of the Queen, but such legislation would not apply in an independent Scotland.

38. The Yes Scotland campaign says the proposal of the current Scottish Government is that the Queen will remain Head of State in an independent Scotland in order to preserve the social union with England, Wales and Northern Ireland.²⁹ However other political parties that support Scottish independence want an elected Head of State. The issue is likely to either be subject to a referendum or a feature of the first Scottish Parliament elections in 2016 post-independence.

THE FUTURE OF TELECOMS

39. There are other issues of access and universal service that should be considered in an independent Scotland, most notably related to telecoms and broadband provision. However, as with postal services, it is difficult to draw any firm conclusions about the impact of Scottish independence at the present stage.

40. BT currently operates in Scotland as 'BT Scotland' and claims to provide £789m in Gross Value Add (GVA) to the Scottish economy; equivalent to 0.7% of Scottish GVA. It employs 7,500 people in Scotland and supports 12,500 Scottish jobs through its supply chain.³⁰

41. It is likely that BT would continue to operate in an independent Scotland; however, the legal and regulatory framework under which it operates would change. Ofcom, which currently has a significant degree of control over prices and how BT's network is accessed by private operators, would cease to have jurisdiction in an independent Scotland and a new regulator for Scotland would need to be established.

BROADBAND PROVISION

42. An independent Scotland would also affect the UK government's plans to provide superfast broadband to at least 90% of UK premises and for the UK to have the 'best' superfast broadband network in Europe by 2015.³¹ A Scottish government would instead have responsibility for setting and funding its own broadband targets.

43. The Scottish Executive has set out their ambition for all of Scotland to have access to next generation broadband by 2020, with significant progress to be made by 2015.³² However currently Scotland is lagging behind the rest of the UK in terms of broadband take-up.³³

²⁷ Postcomm Annual report on the Post Office Network 2009/10, Table 8, page 24.

²⁸ Post Office results for the six months ended 23 September 2012

²⁹ http://www.yesscotland.net/will_the_queen_still_be_head_of_state

³⁰ <http://www.btplc.com/Thegroup/BTUKandWorldwide/BTRegions/Scotland/BTScotlandstory/index.htm>

³¹ Britain's Superfast Broadband Future, Department for Culture, Media and Sport, May 2011.

³² *Ibid.*

³³ Ofcom's 2012 Communications Market Report for Scotland showed that broadband take-up has increased to 68% in Scotland; 8% lower than the UK average. However this is a significant improvement on 2011 when Scotland lagged 13% below the rest of the UK.

44. In their recent paper making their economic case for independence, the Scottish Executive said they would use new regulatory powers to meet the connectivity needs of rural and urban areas in Scotland by setting coverage obligations for providers to reflect the unique demands of the population.³⁴ However it is not yet clear how this would be funded in an independent Scotland.

45. The CWU is calling for the introduction of a legally binding universal service obligation for broadband across the UK.

CONCLUSION

46. Given the current lack of industry-specific information, it is clear far greater consideration must be given to the structure of regulation, the nature of the 'Scottish Universal Service', the legislative framework governing it, and the cost implications this would entail for any postal or telecom provider if voters are to have an informed choice at the 2014 independence referendum.

7 June 2013

Written evidence submitted by Consumer Futures

THE IMPLICATIONS OF SCOTTISH INDEPENDENCE ON POSTAL SERVICES

About Consumer Futures

Consumer Futures (previously Consumer Focus) is the statutory consumer watchdog for energy and postal services in Great Britain, water services in Scotland and postal services in Northern Ireland. It has a wider role in applying learning and insight across other regulated markets.

INTRODUCTION

Consumer Futures has a strong presence in Scotland, working to protect and promote the interests of consumers in regulated markets in Scotland. Our role is not only to consider current issues facing consumers, but to look ahead to the potential for problems or opportunities and identify action to be taken. Our current workplan includes consideration of the implications for consumers of any constitutional change in the governance, regulation and operation of essential markets.

In light of the scope of the Committee's inquiry and that of our statutory remit, our comments relate only to the implications of Scottish independence on postal services.

The views we express are focussed on those issues which will directly affect consumers of postal services and the post office network, both in Scotland and in other UK nations. It is not our intent to express any opinion on the overall desirability of Scottish independence, and nothing in this evidence should be interpreted as either supporting or opposing that outcome.

1. EXECUTIVE SUMMARY

1.1 Significant challenges already exist across the UK in sustaining a universal postal service that meets the changing habits and needs of consumers at an affordable price. The particular geography and topography of Scotland presents additional challenges. These challenges will be brought in to sharper focus in the event of Scottish Independence.

1.2 Regardless of whether a single market arrangement can be agreed between the Governments of an independent Scotland and the UK, the entire regulatory, governance, policy and contractual framework for postal services and the Post Office network would need to be revisited should Scotland secede from the UK. European law would heavily influence the parameters within which decisions about the scope, scale, quality and affordability of postal service provision could be made.

2. BACKGROUND

2.1 The postal service continues to play an important role in Scotland with research showing:

- 95% of consumers in Scotland receive mail each week and 84% sent mail at least once per month.³⁵
- 94% of businesses and 85% of individuals in Scotland state they will always need to send items by post.³⁶

2.2 The Universal Service Obligation (USO) requires Royal Mail, as the designated Universal Service Provider (USP), to provide a mail delivery and collection service six days a week for letters, and five days a week for parcels, at a uniform affordable tariff across the UK. Quality of service standards are in place which set targets for delivery timescales as well as collections.

³⁴ Scotland's Economy: the case for independence, Scottish Executive, May 2013, pg.17.

³⁵ Consumer Focus Scotland; Scottish Postal Services Consumer Survey, 2010;

³⁶ Consumer Focus and Postcomm; Research into Residential and Business Customer Needs from a Sustainable Universal Postal Service, 2010;

2.3 The USO provides a valuable service for people in Scotland, particularly those in Scotland's rural and remote areas where:

- consumers often have to travel longer distances to access face-to-face services;
- broadband penetration is less well developed in some areas; and
- the growth in online retailing has the potential to offer significant benefits.

2.4 Almost one million people live in rural Scotland and 280,000 of those live in remote rural areas. Rural Scotland accounts for 98% of the land mass of Scotland³⁷. Scotland has approximately 96 inhabited Islands with a total population of around 100,000³⁸. Scotland's geography and topography affects the provision of postal services in a number of ways, including:

- Almost half (45%) of the 3000 addresses exempt from the USO, for health and safety or difficulty of access reasons, are in Scotland;
- The three postcode areas in the UK exempt from Royal Mail's quality of service standards are all in Scotland—HS (Outer Hebrides), KW (Kirkwall), and ZE (Lerwick); and
- There is substantial evidence of the difficulties consumers in Scotland, particularly those in rural and remote areas, experience with parcel deliveries by operators other than Royal Mail, including: higher costs of delivery; no delivery to their location; longer delivery times; lack of transparency of delivery costs; and a lack of up-front information about delivery costs.³⁹

2.5 The 1,400-strong Post Office network in Scotland is Scotland's largest retail chain. It is one of the key means by which consumers and businesses access the postal network and offers unparalleled access to a wider range of services including pensions and benefits, government services, and bill payments. The network is especially important in supporting sustainable communities in Scotland's remote and rural areas.

2.6 Postal services and the Post Office network across the UK face significant challenges from the increasing use of digital technology, the consequential reduction in letter volumes and increase in parcel mail, and the changing needs of users.

2.7 Governance, policy and regulation relating to Postal services and the Post Office network are reserved matters and the Scottish Government does not have legislative powers in this area.

3. IMPLICATIONS OF SCOTTISH INDEPENDENCE ON POSTAL SERVICES IN SCOTLAND

3.1 In the event of Scottish independence, the entire regulatory, governance, policy and contractual framework for postal services and the Post Office network would need to be revisited. While it would be possible to retain a single market, with the mutual agreement of both the Scottish and UK Governments, both Governments would require to be satisfied that key issues had been considered in establishing new arrangements.

3.2 The key issues that would need to be considered, whether in an agreed single market context or otherwise, include:

- the scope and sustainability of the Universal Service Obligation;
- the designation of Universal Service Provider(s);
- the setting of appropriate Quality of Service standards;
- the contractual relationship between Royal Mail, as the current UK designated USP, and Post Office Limited, as the outlet providing access to mail services on behalf of the USP, and their equivalents in Scotland;
- cross-border postal issues including mail costs; and
- the impact of Scottish independence on UK postal regulation.

4. REGULATORY FRAMEWORK

4.1 Through the detailed research base accumulated by Consumer Futures, and our predecessor organisations, it is evident that consumers value the accessibility, affordability, quality and suitability of current postal service provision. It is vital that these aspects remain priority considerations for the regulation and provision of postal services. The regulatory framework provides critical means by which the interests of consumers can be protected.

4.2 The parameters within which regulatory decisions would be made in an independent Scotland would be heavily influenced by its position in Europe. As a member of the European Union (EU), an independent Scotland would be required to meet minimum obligations established in the Postal Services Directive (1997), including:

³⁷ Scottish Consumer Council; *Rural Advocacy in Scotland*, 2007;

³⁸ General Register Office for Scotland; *Scotland's Census 2001—Statistics for Inhabited Islands*, 2003;

³⁹ Consumer Focus Scotland; *Effective parcel delivery in the online era: what consumers in Scotland need*, 2012; Citizens Advice Scotland; *The postcode penalty: how some online retailers are disadvantaging Scottish consumers*, 2012; Office of Fair Trading; *Price and choice in remote communities*, 2012;

- designating an independent national regulator (or regulators) with specified regulatory functions;
- ensuring users have access to a universal postal service of specified quality, which is available across all points in the territory, affordable to users and which meets specified requirements, including:
 - at least one collection and one delivery guaranteed at least five working days a week;
 - services for registered and insured items; and
 - providing delivery services for postal packets up to 20kg received from other Member States.
- designating Universal Service Provider(s) to deliver the universal service, or parts thereof;
- setting and publishing Quality of Service standards;
- ensuring postal services tariffs comply with principles of affordability, transparency, encourage efficiency, and are cost-reflective;
- ensuring transparent, non-discriminatory access to the Universal Service Provider(s) infrastructure in order to facilitate upstream competition;
- ensuring users have access to internal complaints handling and compensation schemes; and
- ensuring mail integrity.

4.3 Exceptional geographic conditions can provide mitigation for exemptions from some of these requirements, as is currently the case in relation to delivery requirements and service standards in certain parts of Scotland. However, a substantial level of postal services infrastructure would still be required to meet the minimum requirements.

4.4 The geography and topography of Scotland creates particular challenges when considering the establishment of a Scotland-only postal service, as does the volume of mail likely to be in circulation in a Scotland-only network. This raises questions as to how a sustainable universal service that meets the needs of consumers could be delivered at an affordable price for consumers. The growing tensions between the sustainability and substance of the universal postal service are likely to be brought into even sharper focus in such a context.

4.5 These tensions are likely to be focused on three key areas of postal services regulation: the features of the USO; the cost of providing mail services and the associated effect on pricing; and quality of service standards. If a Scotland-only USO is to be sustainable then decisions will have to be taken about the interaction and balance between these key features. Consideration will also be required about how to ensure sufficient safeguards are in place to protect the interests of consumers.

5. MAINTAINING A SUSTAINABLE UNIVERSAL SERVICE THAT MEETS CONSUMER NEEDS

5.1 The current USO plays a particularly important role in Scotland, especially for consumers and businesses in Scotland's rural and island communities; older consumers who are more reliant on mail services; and low-internet-users. The service provision requirements placed on the USP(s) in Scotland would be an important means of ensuring the postal service meets users' needs. These requirements would also strongly influence the cost of providing this service and its long-term sustainability.

5.2 Identifying the features of the Universal Service Obligation (USO) to be prescribed in the regulatory framework would be a key decision. The UK currently exceeds the minimum obligations required of it by the Postal Services Directive—for example, it provides for a six days a week delivery for letters rather than the minimum of five; quality of service standards exceed those set out in the Directive; and a uniform pricing tariff applies. An independent Scotland could make its own decisions about such features of the USO provided its choices were compatible with the Postal Services Directive.

Cost of providing mail services and the effects on mail pricing

5.3 As a member of the EU, Scotland would need to designate a Universal Service Provider (or providers) to deliver the USO and have in place the necessary infrastructure for collecting, sorting and distributing mail. Royal Mail, as the designated universal service provider in the UK, has significant infrastructure already in place in Scotland. Should another postal operator (or operators) be designated to provide the USO there would undoubtedly be associated costs and practical considerations in disentangling the existing infrastructure and putting a new one in place.

5.4 Under European law, the tariff charged by a USP must be affordable to users, must be cost-oriented and encourage efficiency. If providing the USO creates an unfair financial burden on the USP(s), mechanisms are available to member states to help alleviate this burden, such as compensating the USP from public funds or establishing a compensation fund subsidised by non-USP postal service operators and/or users' fees. Should this be deemed to be the case in Scotland, decisions would need to be taken about whether any of the available mechanisms should be used to alleviate these costs, and if so, who should bear these costs and how.

5.5 Decisions about the extent to which costs should be passed to users would need to have regard to the effects on the affordability of mail services, particularly for those vulnerable consumers who rely on the postal service. The impact of any substantial increase in price could accelerate the switch away from using mail, in

turn putting greater strain on the financing of the USO, or cause those who can least afford any increase and cannot use alternate means, to bear a disproportionate amount of the cost⁴⁰.

Quality of Service standards

5.6 Under the provisions of the EU's Postal Services Directive, quality of service standards for delivering mail would be required to be put in place. These standards should focus in particular on delivery targets and the regularity and reliability of services. Key considerations will be the levels of quality of service standards and the extent to which any exceptions to these should apply in particular geographic areas.

5.7 At present, Royal Mail's UK-wide target is that 93% of First Class mail should be delivered next working day and that 98.5% of Second Class mail should be delivered within three working days—these standards rate reasonably highly in international comparisons⁴¹. There is also a local target specifying that 91.5% of First Class mail should be delivered next working day within each postcode area. There are only three exceptions to this postcode area target, all of which are in Scotland and cover the most remote areas and islands.

5.8 The standards that the USP would be required to meet will have a direct bearing on the cost of providing the USO, though under European law minimum standards are only specified for cross-border services. Setting quality standards that meet the needs of consumers and businesses but which can be achieved at an affordable cost for the USP will be a key challenge in the event of independence.

6. ACCESSING MAIL SERVICES AND THE RELATIONSHIP BETWEEN ROYAL MAIL & POST OFFICE LTD

6.1 An important element of the regulatory framework in an independent Scotland would be the setting of access criteria to ensure consumers and businesses are able to access essential mail services, such as purchasing registered and insured mail services; posting items that are too large to fit through post boxes (as well as letters); and applying for mail redirection services.

6.2 At present, an inter-business agreement between Royal Mail and Post Office Limited establishes the Post Office network as the access point for mail services. These arrangements would need to be revisited in the event of constitutional change in Scotland. Even if Royal Mail were to be designated as the USP in Scotland, it would need to consider access arrangements to the mail network, directly and/or contractually via the Post Office network or other networked outlet, within the Scottish regulatory framework.

6.3 Current mail access point arrangements⁴² are specified by the regulator, OFCOM, within the conditions imposed on the designated universal service provider, Royal Mail. Royal Mail fulfils those conditions via the provision of post boxes and via its inter-business agreement with Post Office Ltd. Additionally, the UK Government has established access criteria specifying the minimum coverage and distribution for the provision of Post Office services.⁴³ An independent Scotland would need to determine whether it maintained access criteria at current levels and where the costs associated with the mail and post office network were borne—through user payment or taxpayer subsidy.

6.4 Consideration would also need to be given to how current UK Government plans for change in ownership and governance of Royal Mail and Post Office Ltd, and the current and future subsidy of services of general social and economic interest via the post office network, impact on the provision of a universal mail service and on Post Office services in the event of Scottish Independence.

7. CROSS-BORDER ISSUES

7.1 In the event of Scottish independence, Scotland and other UK nations would require arrangements to be put in place for dealing with cross-border mail.

7.2 The price of posting mail from Scotland to nations remaining part of the UK and from those other UK nations to Scotland would need to be identified. Typically, postal operators have three main tariffs: domestic; Europe; and rest of the world. Evidence from Europe suggests a number of potential pricing scenarios could result from Scotland becoming independent, including:

⁴⁰ Evidence previously provided to the Committee in its inquiry into Stamp Prices (2012) "Royal Mail has enjoyed some fairly large price hikes over the last few years: typically since 2003 first class has gone up 75% and second class by 80%".

⁴¹ OFCOM; *Review of postal users' needs: a consultation document on the reasonable needs of users in relation to the market for the provision of postal services in the United Kingdom*, 2012;

⁴² OFCOM; *Statutory Notification: designated USP conditions*, 2012; [1.8.2 (a) in each postcode area where the delivery point density is not less than 200 delivery points per square kilometre, not less than 99% of users of postal services are within 500 metres of a letter box; and (b) the distribution of access points capable of receiving the largest relevant postal packets and registered items is such that (i) in the UK as a whole the premises of not less than 95% of users of postal services are within 5 kilometres of such an access point; and (ii) in all postcode areas the premises of not less than 95% of users of postal services are within 10 kilometres of such an access point, and such access points are available to the public in accordance with conveniently published schedules];

⁴³ BIS; *Securing the Post Office Network in the Digital Age*, 2010; [99% of the UK population to be within 3 miles of their nearest PO outlet; 90% of the UK population to be within 1 mile of their nearest PO outlet; 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest PO outlet; 95% of the total urban population across the UK to be within 1 mile of their nearest PO outlet; 95% of the total rural population across the UK to be within 3 miles of their nearest PO outlet. In addition, the following criterion will apply at a local level to ensure a minimum level of access for customers living in remote rural areas: 95% of the population of every postcode district to be within 6 miles of their nearest PO outlet.];

- International rates could be charged. Royal Mail currently charges consumers EU rates for sending mail between Northern Ireland and the Republic of Ireland;
- a standard rate for post between the current UK nations, or between some of the nations, could be charged. An Post, the Republic of Ireland USP, operates an ‘all-Ireland’ rate for mail which distinguishes Northern Ireland from the rest of the UK; and
- a preferential rate for mail between Scotland and the rest of the UK could be negotiated and agreed. Preferential rates between neighbouring postal operators are commonly found in Europe.⁴⁴

7.3 Which scenario is adopted may depend on a number of different factors. In the absence of a negotiated and agreed preferential rate, it would be possible for the designated USPs operating in Scotland and the rest of the United Kingdom to take different approaches to their pricing tariffs, as is seen in Northern Ireland and the Republic of Ireland.

7.4 Quality of service standards for cross-border mail would also need to be put place⁴⁵. It would therefore be possible for the regulatory framework to set different timescales for sending mail from Scotland to other UK nations, or from other UK nations into Scotland, than are currently in place. A consideration for both Scottish and UK Governments would be the impact on consumers and businesses if uniform quality standards were not applied across the UK.

7.5 Consumers may have particular views on such issues. Research⁴⁶ by Consumer Focus (Post) examining cross-border mail between Northern Ireland and the Republic of Ireland, found that a large majority of consumers (87%) considered it unsatisfactory that mail to the Republic of Ireland is more expensive than mail to the rest of the UK, and 77% suggested that the tariffs should be the same. Although satisfaction rates with cross-border mail were relatively high, there was low awareness among Northern Ireland consumers of the need to use an inter-state stamp to send post from Northern Ireland to the Republic of Ireland, with half of businesses (48%) and nearly three-quarters of consumers (72%) not familiar with the correct tariff.

7.6 The cross-border tariff and quality of service standards implemented in an independent Scotland and in the nations remaining part of the UK has the potential to have a significant influence on the postal services markets in these jurisdictions. Our research found that over a quarter of all consumers surveyed (which included businesses) had taken post destined for the Republic of Ireland across the border to use An Post postal services, mainly because of the lower cost and perceived faster delivery time. Anecdotal evidence from sub-postmasters in border communities would suggest that this level has increased since this research was undertaken in 2009. Postal competitors are also emerging who are offering competitive tariffs for posting from Northern Ireland to the Republic of Ireland. Similar behaviours emerging in the event of Scottish independence could potentially impact upon the Scottish USP’s and/or Royal Mail’s mail volumes and consequently the sustainability of the USO.

8. IMPLICATIONS OF SCOTTISH INDEPENDENCE ON UK POSTAL REGULATION

8.1 The possibility of Scottish Independence raises more general considerations for the regulation of postal services in the rest of the UK. The regulatory framework for the rest of the UK would remain intact following Scottish independence and the provisions of the Postal Services Act 2011 would continue to apply, albeit in a revised framework that takes account of the effects of Scottish independence. For example, at the moment, the costs of providing the USO to the diverse geography of the UK is considered and reflected in Royal Mail’s uniform pricing structure. In the event of independence, and given the deeper rural and remote aspects of Scotland’s geography, the pricing regimes adopted either side of the border will become a key consideration, for both Governments, as these will need to reflect the actual cost of providing the USO in the respective jurisdictions.

12 June 2013

Written evidence submitted by the Institute of Physics in Scotland

The Institute of Physics in Scotland is a scientific membership organisation devoted to increasing the understanding and application of physics. It has nearly 3,000 members and is part of the Institute of Physics.

The Institute of Physics (IOP) is a scientific charity devoted to increasing the practice, understanding and application of physics. It has a worldwide membership of around 50,000 and is a leading communicator of physics-related science to all audiences, from specialists through to government and the general public. Its publishing company, IOP Publishing, is a world leader in scientific publishing and the electronic dissemination of physics.

⁴⁴ We are aware of preferential rates applying between the Benelux states, the Slovak and Czech Republics and the Nordic States;

⁴⁵ Standards for intra-Community cross-border services require 85% of mail to be delivered within three days, and 97% delivered within five days of posting;

⁴⁶ Consumer Focus (Post NI); *Cross-border post: Improving mail services between Northern Ireland and the Republic of Ireland*, 2010;

IOP welcomes the opportunity to respond to the Scottish Science Advisory Council's consultation on the possible implications for science and engineering in Scotland in the independence debate. The attached annex details our response to the questions listed in the consultation.

Professor Sir Peter Knight
President

Professor Peter Main
Director Education and Science
Institute of Physics

7 June 2013

While Scottish independence would clearly have an impact on Science and Engineering in Scotland (and the rest of the UK), arguably, the greater impact will be from the policies implemented by the Government of the time, whether that is from Westminster or Holyrood.

RESEARCH IN UNIVERSITIES

A report published by the Scottish Government in 2009⁴⁷ stated "In most subject areas, Scottish research represents between 11–13% of the total UK output". Scotland also performs better than the rest of the UK in many other measures of scientific excellence⁴⁸ and Scotland attracts proportionately more funding from UK Research Councils than the rest of the UK.

In 2009/10 Scotland won:⁴⁹

- 15% of all funding allocated to UK universities by the BIS research councils, Royal Society and British Academy.
- 15% of all funding allocated to UK universities by UK charitable organisations.
- 17% of all funding allocated to UK universities by UK industry, commerce and public corporations.

The transition from RCUK would have to be managed carefully in order to maintain current funding levels. If the SFC took over the RCUK function, there may be an opportunity for more joined up thinking on teaching and research. There is clearly a need to manage any transition of research funding in the short term to cover existing projects: of particular sensitivity would be collaborative and "rolling" grants. However, in the longer term, unless Scotland chose to remain as a "virtual" member of RCUK, which seems unlikely, the IOP would expect that Scotland would need to set up its own funding infrastructure.

Other possibilities could be considered, such as forming research funding liaisons with the Nordic institutions. Nevertheless, the funding of research is primarily dependent on the political will of the current Government, whether that is of the UK or of an independent Scotland.

Another consideration will be who will manage the process for the Research Excellence Framework (REF)? If the Scottish Funding Council (SFC) has to implement a system for the REF, it will increase their administrative burden.

An independent Scottish Government will also need to consider how funding from UK charities such as the Wellcome Trust and the Leverhulme Trust will be maintained. One possibility might be for Scotland to maintain a liaison with RCUK and pay it to administer research grants and access to the central facilities as at present. Partnerships with UK facilities, such as ISIS and Diamond, will have to be renegotiated. In particular, the future of the Astronomy Technology Centre (ATC) will be of particular importance to Scotland.

Uncertainty will also surround access to funding from the European Union (EU), although should the rest of the UK vote to leave the EU and Scotland stays within the EU or negotiates accession, independence could be seen as advantageous.

There is an argument that, should Scotland become independent, there could be a reduction in collaborations and exchange of ideas with researchers in the rest of the UK and effort would have to be made to preserve the interchange, which enhances the quality of some research.

ACCESS TO INTERNATIONAL SCIENCE FACILITIES

Currently research groups in Scotland have excellent access to international science facilities such as the accelerators at CERN, the telescopes of the European Southern Observatory (ESO) and the space missions of the European Space Agency (ESA), for example, through subscription funding from the UK research councils. The Government of an independent Scotland would have to renegotiate access to these facilities with various bodies, such as CERN, ESO and ESA, and provide sufficient funds to secure that access. Currently RCUK facilitates research with international partners.

⁴⁷ Source: Scottish Government, international comparative research performance 2009

⁴⁸ Universities Scotland: University research, facts and figures 2011

⁴⁹ Universities Scotland: University research, facts and figures 2011

STUDENTS AT SCOTTISH UNIVERSITIES

If Scotland becomes independent, the fee regime for students at Scottish universities will have to be considered. Currently, students from England pay fees, while those from the rest of the EU do not. This raises the question of whether English students applying to Scottish universities would then be charged (or not) on equal terms as other EU citizens.

A number of PhD programmes in science and engineering draw on collaborations between institutions in Scotland and the rest of the UK. In particular, consideration should be given to how to support the Doctoral Training Centres already located in Scotland, which are sponsored by EPSRC.

IMMIGRATION ISSUES

Currently immigration issues are reserved to Westminster and there have been concerns that increasing restrictions limit the opportunities for research groups to attract leading international experts. Arguably the Government of an independent Scotland may set in place a more favourable immigration system to the benefit of science and engineering in Scotland.

IMPLICATIONS FOR SCIENCE AND ENGINEERING IN BUSINESS

There are major uncertainties as to how international companies currently based in Scotland will view a move to independence. In the short term, inward investors may be discouraged from coming to Scotland until they know what the tax regime is likely to be. It could be advantageous to Scotland to be clear on such issues as a tax regime in advance to prevent such a hiatus.

TECHNOLOGY, INNOVATION AND KNOWLEDGE TRANSFER

The Technology Strategy Board currently encourages the exploitation of emerging technologies and facilitates knowledge transfer between universities and industry across the whole of the UK. There are organisations within Scotland who are also tasked with similar objectives, but it could be argued that independence for Scotland will reduce opportunities to transfer knowledge due to the smaller pool available. That said, it might possibly be argued that Scotland is a large enough entity to produce excellent innovation, while small enough to exploit it in an effective manner.

Despite Scotland's excellence in research, the translation of this into the economy has been relatively poor. An independent Scotland would need to consider how to convert excellent research into economic benefits⁵⁰.

7 June 2013

Written evidence submitted by OFCOM

THE IMPLICATIONS OF SCOTTISH INDEPENDENCE FOR POSTAL SERVICES

Ofcom is the independent regulator for, amongst others, postal services in the UK. Under the provisions of the Communications Act 2003, Ofcom is independent of both the Scottish and UK Governments and has no position on whether there should be any constitutional change within the UK. Ofcom has not undertaken any work on the potential implications of Scottish Independence for postal services and has no plans to do so in advance of the referendum vote. We will, of course, continue to work with both governments, as we always have, and we will continue to be open in providing information about how the sectors we regulate work.

In this context, we thought the Committee might find it useful to have a short description of the framework for postal services at a European level. If an independent Scotland remained or became a member of the EU it would also be subject to this European framework, or if an independent Scotland was not a member of the EU it may wish to adopt the framework fully or in part (such as Norway and Switzerland) to be consistent with their European neighbours given the importance of cross-border trade.

EUROPEAN POSTAL LEGISLATION

The stated purpose of European policy in the postal sector is:

“to complete the internal market for postal services and to ensure, through an appropriate regulatory framework, that efficient, reliable and good-quality postal services are available throughout the European Union to all its citizens at affordable prices. The importance of postal services both for the economic prosperity and social well-being and cohesion of the EU make this a priority area for Community action.”⁵¹

The European postal legislation comprises three Postal Services Directives:

⁵⁰ Scottish Science Advisory Council: Making the most of our Scientific Excellence 2013

⁵¹ http://ec.europa.eu/internal_market/post/legislation/index_en.htm

- Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service.⁵²
- On 10 June 2002, the European Parliament and the Council formally adopted the Postal Directive 2002/39/EC, which amends the initial Postal Directive (97/67/EC) by defining further steps in the process of gradual and controlled market opening and further limiting the service sectors that can be reserved.⁵³
- On 20 February, the European Parliament and the Council formally adopted the Directive 2008/06/EC, which amends the initial Postal Directive (97/67/EC) as amended by Directive 2002/39/EC by defining 2010, and for some Member States 2012, as a final step in the process of gradual market opening.⁵⁴

As the subsequent Directives amend the previous versions it is easier to refer to a consolidated version of the Directives.⁵⁵

THE REQUIREMENTS OF THE POSTAL SERVICES DIRECTIVES

In summary the European postal legislation requires all member states to provide a universal postal service meeting, as a minimum, the following requirements:

- Collections and deliveries five working days per week of national and cross-border:
 - Postal items up to 2kg;
 - Postal packages up to 10kg (although Member States have discretion to increase this weight limit to 20kg); and
 - Services for registered items and insured items.
- Prices for these services must be affordable and cost-oriented, while tariffs must be transparent and non-discriminatory; and
- The density of points of contact (ie post offices) and access points (ie post boxes) must take account of the needs of users.

The Directives also set out provisions relating to, among other things, quality of service standards, the designation of a universal service provider, the funding of the universal postal service by a universal service fund and the establishment of an independent postal regulator in each Member State.

The Third Postal Service Directive required all postal markets in the EU to be opened to competition from January 2012. Previously, Member States could define ‘reserved areas’ of services which could only be provided by the designated universal service provider. The UK postal market has been open to competition since 2006.

THE SITUATION IN THE UK AND OTHER MEMBER STATES

Although one of the intentions of the Postal Services Directives is to harmonise the provision of postal services across the European Union, there remains considerable variation in services between Member States. This is illustrated by the report *Main developments in the postal sector (2008–2010)* commissioned by the DG Markt in the European Commission.⁵⁶

For example, the UK’s current framework for postal regulation is determined by the Postal Services Act 2011 (and to a lesser extent the Postal Services Act 2000, as amended by the 2011 Act). This sets out the minimum requirements for the universal postal service in the UK which in some important aspects go further than the European requirements. In particular, the Postal Services Act 2011 requires the universal service provider to:

- Make collections and deliveries six days a week for letters;
- Carry parcels up to 20kg;
- Have geographically uniform prices, ie the same price goes anywhere in the UK; and
- Provide specified free services to blind or partially sighted persons.

While, as we noted above, we are not in a position to make any contribution regarding the potential implications of Scottish Independence for postal services, we would be happy to assist the Committee with regard to any questions they had about the current arrangements either in the UK or overseas.

7 June 2013

⁵² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1998:015:0014:0025:EN:PDF>

⁵³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:176:0021:0025:EN:PDF>

⁵⁴ http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf

⁵⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1997L0067:20080227:EN:PDF>

⁵⁶ http://ec.europa.eu/internal_market/post/doc/studies/2010-main-developments_en.pdf and supporting documents http://ec.europa.eu/internal_market/post/doc/studies/2010-main-developments-country_en.pdf.

Written evidence submitted by the Royal Astronomical Society

DECLARATION OF INTERESTS

This is the official submission from the Royal Astronomical Society to the Select Committee inquiry into the implications of Scottish independence. The Society itself has no financial relationship with any of the bodies referred to in this report. Many of our Fellows however are either employed by these organisations, receive grant funding from them or are involved with them in advisory roles.

1. With more than 3700 members (fellows), the Royal Astronomical Society is the UK body representing professional astronomers, space scientists and geophysicists. As such we are pleased to respond to this inquiry, as the issues raised are of direct relevance to all of these communities.

2. The short timescale for this consultation has however compromised our ability to fully consult scientists and researchers. Given the major changes to the UK research landscape that could result from Scottish independence, this is a cause for concern. We nonetheless invite the Committee to consider two examples, one each in astronomy and in geophysics, that illustrate some of the issues that would need to be addressed.

3. Scotland currently has a very diverse portfolio of research in astronomy and geophysics, research that is well integrated into activity across the UK, but is internationally strong in its own right. In an independent Scotland, the smaller resource base might have an impact on the breadth of activity, particularly in blue skies science such as astronomy.

4. Broader areas for consideration should thus include the support for research in universities and research establishments and how the currently UK-wide research councils would agree to divide assets and grant funding between an independent Scotland and the other nations of the UK. The Society believes that these negotiations would also need to include an agreement on access by scientists to facilities of international importance in both states.

5. The Society urges the Committee to seek independent advice on these issues and to consider the kind of cross-national agreements that would need to be put in place to maintain the health of research activity in both countries.

ASTRONOMY TECHNOLOGY CENTRE (ATC)

6. A major UK astronomical facility is the ATC (<http://www.stfc.ac.uk/ukatc/default.aspx>), based in Edinburgh. One of the research establishments of the Science and Technology Facilities Council, this is a key centre for astronomical instrumentation development and support. The ATC is heavily involved with the development of the Mid-Infrared Instrument (MIRI) for the NASA/ESA James Webb Space Telescope in which the UK has a major role.

7. If Scotland becomes independent then we would ask the two governments to broker a cross-national agreement to continue the operation of the ATC.

BRITISH GEOLOGICAL SURVEY (BGS)

8. The BGS (www.bgs.ac.uk) is the body, partly supported by the Natural Environment Research Council that aims to advance geoscientific knowledge of the UK landmass and continental shelf. It has its headquarters in Nottinghamshire and centres in Edinburgh, Cardiff and London.

9. As with other facilities, the Society is not aware of any specific plans for a change to the future of the British Geological Survey in Scotland in response to independence.

10. Much of the science undertaken by the BGS is international and therefore would potentially be little affected if the Scottish Government continued to support the Edinburgh office. The Nottinghamshire HQ would presumably continue on a similar basis as at present. There is discussion in the geosciences community on how independence would affect funding for research in each nation.

11. Some thought would have to go into planning the continued provision of cross-border monitoring activities (seismic and magnetic networks in particular) undertaken by these science teams. How the maritime area is divided up would also affect marine geosciences planning.

10 June 2013

Written evidence submitted by the Royal Mail Group

1. INTRODUCTION

1.1 Royal Mail is pleased to respond to the Select Committee for Business, Innovation and Skills on its short inquiry into the implications of potential Scottish Independence for postal services.

1.2 The Scottish independence referendum is a matter for the Scottish people. If the Scottish people choose to become independent, it is envisaged that there would be a series of discussions, constitutional settlements, and legislation to decide upon the independence process. We are not aware of which issues and policy areas might be covered were there to be any such negotiations. Royal Mail therefore cannot speculate on any future legislative framework for postal services after potential Scottish independence.

1.3 Royal Mail is the sole provider of the Universal Service in the UK, serving 2.5 million addresses 6 days a week in Scotland. Our Universal Service obligations are outlined in the Postal Services Act 2011, and set out in detail in the Universal Service Order. This statutory document is set and regulated by the communications regulator Ofcom. Postal services policy is currently listed as a reserved power under the Scotland Act 1998. Post Office Ltd has been formally separated from Royal Mail Group since April 2013, but continues to offer Royal Mail services under the terms of a long term commercial agreement.

1.4 As the Universal Service provider, Royal Mail has a legal obligation to provide a uniform-priced Universal Service across the UK. This means that we must maintain a fixed cost network across the UK—a network with the ability to deliver to every household and collect from every collection point, six days a week. As such we treat our UK network as a single fixed cost network for accounting purposes. In 2011/12, the total cost of providing the Universal Service across the UK was £6.7bn.

1.5 In 2008, in his independent review of postal services and the Universal Service, Richard Hooper made a number of key recommendations to Government, with a view to maintaining a stable Universal Service across the UK. His recommendations included the relief of Royal Mail's historic pension deficit, regulatory reform, and allowing Royal Mail continuous access to private capital. The Government facilitated this package of measures through the passage of the Postal Services Act 2011. This has allowed the Government to transfer the historic Royal Mail Pension Plan to its own accounts, and appoint Ofcom as the new postal services regulator. Ofcom has since reformed the regulatory framework for postal services in the UK. The Government has stated that it aims to complete implementation of Hooper's package of reforms through a sale of shares in Royal Mail in this financial year.

1.6 Royal Mail welcomes this decision. Ongoing access to external capital would be combined with the comprehensive framework of regulation for the Universal Service Obligation under the Postal Services Act 2011. This would allow Royal Mail to combine the best of the public and private sectors. We would continue to deliver the one-price-goes-anywhere, six day a week universal service across the UK to our current high service specifications.

1.7 Royal Mail and Post Office Ltd have signed a long term agreement which provides the framework around which the two businesses work since they became sister companies in April 2012. The mutual commercial success of both companies is best served by Royal Mail and Post Office working closely together for the benefit of customers. The Post Office remains the high street presence for Royal Mail and Royal Mail products and services continue to be available in all Post Office branches. Allowing Royal Mail to access external capital would allow Royal Mail to invest in further products and revenue streams, including the growing parcels market. This should result in further business going through the Post Office network, supporting branches across the country.

2. ROYAL MAIL IN SCOTLAND

2.1 Royal Mail is proud to play a significant part in the economic and community life of Scotland. Royal Mail employs 11,689 people in Scotland, of which 10,845 are postmen/women. There are four mail centres in Scotland: in Glasgow, Edinburgh, Aberdeen, and Inverness. Scotland has 179 delivery offices and 172 Small Postal Delivery Offices (SPDOs). We collect from over 10,000 post boxes in Scotland.

2.2 Royal Mail has extensive arrangements in place to ensure post is delivered across Scotland, including its more remote locations. Many of our SPDO's are located in rural and island areas serving some of the most remote communities—Shetland (16 islands), Orkney (20 islands), The Western Isles/Outer Hebrides (15 islands), the West Coast Islands and Inner Hebrides (26 islands)—and also Mull, Jura, Islay, Arran, Bute and the Cumbraes. Very few other postal operators reach the Islands and, apart from Royal Mail, none operate a one-price-goes anywhere service at an affordable price. Royal Mail is able to serve these communities using its established air network, fleet of vehicles, and through ferry or small boat routes.

2.3 Royal Mail is the only operator which does not surcharge on parcels, under the one price goes anywhere Universal Service system. Parcelforce Worldwide is the only operator which has a mainland Scotland rate. Other operators use zonal charging in Scotland. Parcelforce is unique among its competitors in making no surcharge for south-bound parcels in a bid to help Scottish businesses. It operates in a purely commercial market place and is legally entitled to charge commercial rates. Extra charges do apply in some cases to the islands, due to the distance and additional costs involved in delivering mail to these areas.

3. THE UNIVERSAL POSTAL SERVICE

3.1 The Postal Services Act 2011 sets down the minimum requirements of the universal postal service in law. These minimum requirements include the collection of letters every Monday to Saturday and a delivery service at affordable prices in accordance with a uniform tariff throughout the UK. The requirements are set out in section 31 of the Postal Services Act 2011. Any change to these minimum requirements would require the approval of both houses of the UK Parliament. The requirements are:

<i>Universal Service requirement</i>	<i>Applies in the event that Royal Mail is sold</i>
6 day a week delivery to the home or premises of every individual in the UK	Yes
6 day a week collection from every access point (eg post boxes and post offices) in the UK	Yes
A uniform, affordable tariff across the UK	Yes
The provision of a registered items service at a uniform tariff	Yes
The provision of an insured items service at a uniform tariff	Yes
Free postage for the blind and partially sighted	Yes
A free service of conveying qualifying legislative petitions	Yes

3.2 Royal Mail is regulated by Ofcom. The regulator sets a minimum delivery standard for the whole of the UK. Currently the target for First Class mail is 93% delivery the next working day. For Second Class mail the target is 98.5% delivery within three working days. All post must be delivered to the door, unlike in a number of European countries where central collection points are used. Royal Mail has amongst the highest service specifications of any major EU member state. These include:

SERVICE SPECIFICATION

<i>Performance measure</i>	<i>Standard</i>
Delivery routes completed each day	99.9%
Access points served each day	99.9%
Postal packets deemed delivered	99.5%
First class mail delivered next working day	93.0%
Second class postal packets up to 1kg delivered within 3 working days	98.5%
Second class postal packets more than 1kg delivered within 3 working days	90.0%
Special Delivery up to 10kg delivered by 13:00 next working day	99.0%
International Mail going to the EU delivered within 3 working days	85.0%
First class mail delivered next working day in each of 118 postcode areas	91.5%

3.3 The above requirements apply to 13 of Scotland's 16 postcode areas. There are three longstanding exemptions: ZE (Lerwick/Shetland) KW (Kirkwall/Orkney), and HS (Hebrides/Western Isles). These areas are exempted from the 93% next day delivery standard due to their remote locations. However, our service specification remains in place and we will always try to deliver first class items to these locations the next working day.

3.4 First and Second Class stamped and franked mail, and Royal Mail First and Second Class parcels to 20kg, are part of the Universal Service. That means they have to be offered on a universal ("one-price-goes-anywhere") tariff at affordable prices. Ofcom have recently concluded that these services meet the needs of the vast majority of postal users and there is no case for changing the terms of the Universal Service (Ofcom Review of postal users' needs, 27 March 2013).

3.5 Royal Mail met its Second Class mail quality targets in 2012/2013 financial year with 98.5% delivered within three working days. We have also beaten the target for standard parcels, with 96.3% delivered within three working days in 2012/2013 versus a target of 90%. In the UK, Royal Mail narrowly missed the 93% First Class target with 92.4% of mail delivered the next working day, when adjusted for significant disruption due to two periods of bad weather (summer flooding in 2012 and prolonged severe winter weather in January, February and March 2013). Disruption due to London 2012 is also cited. The unadjusted First Class figure was 91.7%. Royal Mail beat its target for standard parcels, with 96.3% delivered on time in 2012/13 versus a target of 90.0%.

4. ONGOING ACCESS TO EXTERNAL CAPITAL

4.1 In December 2008, Richard Hooper published an independent report into the UK postal services sector, with a view to making the Universal Service sustainable. Hooper made four policy recommendations:

- That modernisation should be accelerated through access to external capital. Hooper said that "the company urgently needs commercial confidence, capital and corporate experience to modernise quickly and effectively."
- That industrial relations must be improved. "Royal Mail must develop a more constructive working relationship in which both are engaged in the long-term strategic future of the company."

- That the Government should tackle the historic pension deficit, which was “amongst the largest of any UK company.”
- That the regulatory framework needed to be reformed, and that “a new regulatory regime is needed to place postal regulation within the broader context of the communications market.”

Hooper made clear that his “recommendations are a package...Each element of the package is needed if the universal service is to be sustained.”

4.2 The Government facilitated implementation of Hooper’s recommendations through the Postal Services Act 2011. This enabled the transfer of the liabilities of the historic Royal Mail Pension Plan to Government, and the appointment of Ofcom as the new postal services regulator. Ofcom has since reformed the regulatory framework for postal services in the UK. The Government has stated that it aims to complete implementation of Hooper’s package of reforms through a sale of shares in Royal Mail in this financial year.

4.3 Gaining ongoing access to external capital would be a positive step for Royal Mail and the Universal Service. For Royal Mail to innovate and remain competitive in the marketplace we need to continue our transformation. External capital would help to deliver our long term strategy, leading to a sustainable and profitable Universal Service.

4.4 The Postal Services Act 2011 strongly protects the high-quality Universal Service. Its protections would continue to apply to Royal Mail following any sale of shares. The protections include a uniform service to rural areas, to which Royal Mail must continue to deliver the same high-quality service or risk large fines. It also protects specific services, such as the Articles for the Blind scheme, which provides free postal services to blind or partially sighted people.

4.5 The ownership structure of Royal Mail has no bearing on the number of people employed in the business. Whether it is in the public sector or the private sector, Royal Mail will need to be a smaller and more efficient company in the future. The difficult and demanding process of change is being undertaken in close co-operation with our unions. All terms and conditions and collective agreements that apply to employees would remain in place were there to be a change in ownership of the company, on the same basis that they apply to employees now. No one can rule out changes in the future but that has always been the case. We will continue to have a predominantly full time workforce, supported by part time workers, with a national split of around 75% full time workers to 25% part time. Change will continue and the company will be smaller whoever owns us. We remain committed to the overarching objective of achieving this without compulsory redundancies. These job security, and other, commitments are part of current agreements with the Communication Workers Union. If and when any changes are proposed, we will, as now, and where appropriate, discuss these with the unions with a view to reaching agreement.

4.6 Stamp prices, whether set under public or private ownership, are subject to significant competitive pressures. Customers have many alternatives to the post. In 2013 there was no increase in the price of first class or second class stamps for letters. Ofcom has also set safeguard price caps on Second Class stamped mail in 2012, which also covers Second Class parcels up to 2kg. The safeguard cap is set for seven years (from April 2012). For Second Class letters this was set at 55p, rising in line with CPI. Ofcom is legally obliged to ensure an affordable postal service and can reintroduce regulation on any Universal Service product. UK stamp prices are among the best value in the EU. In five of the six weight steps for First Class and Second Class mail, the cost of UK stamps are ranked in the bottom half of prices when compared with other EU countries. In some cases, the UK is the cheapest.

5. ROYAL MAIL AND THE POST OFFICE

5.1 Royal Mail and Post Office Ltd have signed a long term agreement, which provides the framework around which the two businesses work since they became sister companies in April 2012. Royal Mail is the company that delivers parcels and letters—the provider of the universal postal service. The Post Office is the nationwide network of branches offering a range of postal, Government and financial services. The long-term commercial agreement ensures that Royal Mail services are available through all post offices in the future.

5.2 It is in both Royal Mail and Post Office Ltd’s interest to ensure a strong, comprehensive post office network. Combined with Government funding of the Post Office and allowing Royal Mail to access external capital, separation will safeguard the future of both companies and the commercial relationship between them. Separation has also given Post Office management greater freedom to focus on its customers and growing its revenue base.

5.3 The transformation of Royal Mail should result in more business—particularly from the growing parcels market—going through post offices, and a stronger post office network. At the same time, the Post Office Network Transformation programme will result in longer opening hours at post offices, and greater flexibility for postal services users. This will allow Royal Mail’s customers greater access to parcels services and benefit both companies.

5.4 Royal Mail, working with the Post Office, will launch later this year the UK’s largest ‘click and collect’ network to support online shopping growth by providing greater choice of convenient parcel delivery options for online retailers and their customers. Post Office has the largest retail network in the UK, making branches

the ideal locations to provide convenient, secure parcel collection facilities. 99% of the population lives within three miles of a Post Office branch. Around 10,500 Post Offices will be taking part in the initiative which will enable online retailers to offer shoppers the opportunity to order items for collection at their local branch.

6. MODERNISATION AND TRANSFORMATION

6.1 Royal Mail is undertaking one of the biggest transformation programmes of any UK company. Our UK wide modernisation programme is helping us to respond to the changing marketplace and, in particular, the growing parcels market.

6.2 In 2012–13 Royal Mail delivered an average of 58 million items a day, compared to 63 million in 2011–12. Royal Mail delivered 14,079 million addressed letters over the same period. Letter volumes fell again this year by 8% and parcel volumes increased by five%. The decline in letters and the growth in parcels can also be seen in Scotland.

6.3 The business has already modernised 888 of its delivery offices of the 1356 offices throughout the UK. In Scotland, 184 of 351 offices have been modernised, and we are using around 1389 new vans to deliver the increasing number of parcels. We have also deployed more than 2500 lightweight trolleys in Scotland, and more than 2000 personal digital assistants to upgrade our capacity to deliver our signed for and special delivery services.

6.4 Gaining continuous access to external capital would enable Royal Mail to continue to invest in its operational network in Scotland, focus further on the needs of customers, and respond to the continually changing postal market.

11 June 2013

Written evidence submitted by The Scotch Whisky Association

1. INTRODUCTION

1.1 The Scotch Whisky Association (SWA) is the industry's representative body, with a remit to protect and promote Scotch Whisky worldwide. Its member companies, which include Scotch Whisky distillers, blenders and bottlers, account for over 90% of the industry.

1.2 Scotch Whisky is Scotland's leading single product export and the UK's largest fast moving consumer goods export. In 2012, annual shipments reached £4.3bn at Customs valuation which represents 25% of total UK food and drink exports and 80% of Scotland's food and drink exports.

1.3 The Association takes no position on constitutional arrangements within the UK. We do, however, have a particular interest in the impact of potential change to business within the UK. This was raised in our responses to both the UK and Scottish Government's consultation on the referendum (Appendix 1 and 2).

1.4 Our comments are confined to the implications of Scottish Independence for business and do not cover higher education, research or postal services.

2. SCOTCH WHISKY INDUSTRY

2.1 The industry is a major business in the UK and provides employment for around 35,000 people, of which 10,000 are directly employed within the industry. Its operations and jobs are at the heart of many communities across Scotland and it contributes to the prosperity of the United Kingdom and Scotland.

2.2 The Scotch Whisky industry is export-oriented, with nine out of every ten bottles sold overseas. International growth and optimism about future export potential has supported in excess of £1bn of new capital investment over the last five years. A further £1.5 billion is in the pipeline over the next five years.

3. BUSINESS REQUIREMENTS

3.1 In planning for future success, the industry needs political and economic stability. We need the prospect of sustainability and certainty about the future business and regulatory environment. It is important to remember that Scotch Whisky can only, by law, be made in Scotland.

3.2 Currently, there is a lack of information surrounding what independence would mean for Scotland and companies doing business there. This includes issues such as the structures of government and the costs of establishing and maintaining separate structures, the nature of the financial/monetary and economic administration, the geographical spread of Scotland's overseas representation, the mechanisms and timing for securing continuing membership of the European Union and the World Trade Organisation. Each of these areas is important to the Scotch Whisky industry.

3.3 Scotch Whisky exports are negatively impacted by tariff and non-tariff barriers to trade. These international priorities are pursued with and through the UK Government whose influence with the European Union institutions ensures that they are handled to best effect on an international level with the countries

concerned. The industry needs reassurance that this level of support will be continued if constitutional changes were to be introduced.

3.4 The Scotch Whisky industry urges both the UK and Scottish Governments to address the issues that relate to doing business in Scotland, so that an informed debate can take place. It is important to foster an environment where legitimate questions can be advanced without being characterised as taking a particular position and where political considerations are clearly delineated from matters of fact.

4. CONCLUSION

4.1 In responses to both the Scottish Government and Scotland Office consultations on a future independence referendum, the SWA has underlined a need for clarity on various issues arising from potential constitutional change. We have sought to point out the sort of areas touching on our members' business environment that would need to be considered.

4.2 The Association calls on both the UK and Scottish Governments to ensure that any future change to constitutional arrangements does not impact on export-oriented sectors, such as Scotch Whisky, that rely on effective trade policy mechanisms and overseas representation. The sustainability of the industry is important to Scotland's prosperity and to the success of the companies and the jobs they generate in Scotland.

The Scotch Whisky Association

June 2013

APPENDIX 1

SCOTCH WHISKY ASSOCIATION'S RESPONSE TO THE SCOTLAND OFFICE CONSULTATION MARCH 2012

SCOTLAND'S CONSTITUTIONAL FUTURE: CONSULTATION

The Scotch Whisky Association is happy to respond to the UK Government's consultation on Scotland's constitutional future. We do so to underline the urgency for clarity, as seen from a business perspective, on the many issues arising from a referendum on Scotland's constitutional future. This response addresses the issue of independence and not the wider issue of further devolution of powers to Scotland.

The Scotch Whisky industry is a major business in the UK; it is embedded in Scotland, providing employment for around 35,000 people and contributing massively to the prosperity of the United Kingdom and Scotland. Its operations and jobs are at the heart of many communities across Scotland.

In planning for future success, industry needs political and economic stability, the prospect of sustainability and certainty about the future business environment. There is an urgent need for both the UK and Scottish Governments to set out unequivocally what independence, if that was the choice of the electorate, would mean for Scotland and companies doing business there. These include the timing of the referendum on independence, the structures of government and financial/economic administration, Scotland's overseas representation, membership of the European Union and the World Trade Organisation, all of which are critical to the Scotch Whisky industry in its overseas markets. The sustainability of the industry matters to Scotland's prosperity and to the success of the companies and the jobs they generate in Scotland.

The Scotch Whisky industry urges both the UK and Scottish Governments to address the issues that relate to doing business in Scotland, so that an informed debate can take place, where legitimate questions can be advanced without being characterised as taking a particular position and where political considerations are clearly delineated from matters of fact.

We look forward to engaging with both the UK and Scottish Governments on the important issue of Scotland's constitutional future which is critical to the Scotch Whisky Association and its member companies, whose employees depend on a successful and growing industry for their livelihood.

APPENDIX 2

SCOTCH WHISKY ASSOCIATION'S RESPONSE TO THE SCOTTISH GOVERNMENT'S CONSULTATION MARCH 2012

SCOTTISH GOVERNMENT CONSULTATION: YOUR SCOTLAND, YOUR REFERENDUM

The Scotch Whisky Association is happy to respond to the Scottish Government's consultation. We do so to underline the urgency for clarity, as seen from a business perspective, on the many issues arising from a referendum on Scotland's constitutional future. This response addresses the issue of independence and not the wider issue of further devolution of powers to Scotland.

The Scotch Whisky industry is a major business in the UK; it is embedded in Scotland, providing employment for around 35,000 people and contributing massively to the prosperity of the United Kingdom and Scotland. Its operations and jobs are at the heart of many communities across Scotland.

In planning for future success, industry needs political and economic stability, the prospect of sustainability and certainty about the future business environment. There is an urgent need for both the Scottish and UK Governments to set out unequivocally what independence, if that was the choice of the electorate, would mean for Scotland and companies doing business there. These include the timing of the referendum on independence, the structures of government and financial/economic administration, Scotland's overseas representation, membership of the European Union and the World Trade Organisation, all of which are critical to the Scotch Whisky industry in its overseas markets. The sustainability of the industry matters to Scotland's prosperity and to the success of the companies and the jobs they generate in Scotland.

The Scotch Whisky industry urges both the Scottish and UK Governments to address the issues that relate to doing business in Scotland, so that an informed debate can take place, where legitimate questions can be advanced without being characterised as taking a particular position and where political considerations are clearly delineated from matters of fact.

We look forward to engaging with both the Scottish and UK Governments on the important issue of Scotland's constitutional future which is critical to the Scotch Whisky Association and its member companies, whose employees depend on a successful and growing industry for their livelihood.

Written evidence submitted by Universities Scotland (SCI0012)

Please find enclosed Universities Scotland's policy issues paper, *Universities in a dynamic constitutional environment: policy issues for consideration*.⁵⁷

This paper is offered as a technical information resource for the proponents of all constitutional options for Scotland, whether status quo, further devolution of power, or independence. It offers no judgements about the case for or against any particular constitutional option.

We want to assist the development of constitutional options by identifying issues which, from a university sector perspective, should be taken into account in the detailed development of those options.

Policy objectives which we would seek under any constitutional settlement include:

- the sustainable accessibility of Scottish universities to appropriately-qualified learners from Scotland, the rest of the UK, the EU and overseas;
- the quality and quality assurance of teaching at Scottish universities;
- the quality, scale and impact of university research and knowledge exchange;
- the free movement, within the British Isles, EU and internationally, of students, staff and ideas;
- the maintenance and enhancement of universities' scope for collaborative teaching and research at Scottish, UK, EU and international levels;
- taxation regimes which support universities' success, both directly and indirectly (eg in relation to the attraction of research-driven inward investment, taxation of shared services transactions or of philanthropic giving);
- regulatory regimes which support universities' generation and dissemination of intellectual property; and
- sustainable and fair pay and pension arrangements for university staff.

I hope this paper will of interest to you as part of the Committee's Inquiry.

Alastair Sim
Director

6 June 2013

Written evidence submitted by University and College Union Scotland

THE IMPLICATIONS FOR SCOTTISH INDEPENDENCE ON HIGHER EDUCATION AND RESEARCH

INTRODUCTION

The University and College Union is the largest trade union in the Post-16 education sector in the UK, representing 120,000 academic and related members across the UK, and is the largest union in the higher education sector in Scotland. UCU was pleased to have the opportunity to give oral evidence to the Westminster Business, Innovation and Skills Committee in Glasgow on 17 June 2013. This additional submission supplements our oral comments.

Education is already one of the most devolved areas in Scotland due to historic differences in both school and post-school education, as compared to the rest of the UK. Prior to devolution in 1999, the higher education budget and policy was decided by the Scottish Office, with a Scottish Higher Education Funding Council

⁵⁷ <http://www.universities-scotland.ac.uk/uploads/ConstitutionPaper2012final.pdf>

established in 1992. Devolution has led to further divergence in higher education policies, particularly on issues such as tuition fees. Nevertheless, there remains much that connects the Scottish sector to the rest of the UK.

UCU has no fixed views in favour of one particular constitutional settlement for Scotland, and is not intending to favour one option over another in the run up to the referendum on Scottish independence. UCU's Scottish membership has, through its representative structures, been considering the implications of constitutional change and higher education for some time; and debate and deliberation is continuing on this matter across the union. The union considers it has a vital role in engaging our members in the referendum debate, and to give consideration to the impact constitutional changes could have on education, wider society and the economy. Therefore, UCU does not have set views on a preferred constitutional option, but we do have a range of questions which require responses from the proponents of independence, greater devolution, and the "status quo" options.

In our deliberations on constitutional change UCU's priorities are those of our members, as our prime responsibility as a trade union must always be the defence of our members and in seeking the best outcomes for them. UCU also has a strong commitment to the students who participate in higher education, and ensuring the best educational outcomes for them. UCU absolutely rejects the notion of students as consumers, just as we oppose the marketisation and privatisation of higher education. UCU has opposed the introduction of tuition fees for students across the UK, believing that higher education should be freely available and based on the ability to learn. We welcome the fact that Scottish domiciled students do not pay for under-graduate tuition in Scotland, but we oppose top up tuition fees which are charged by British universities, including the fees Scottish universities charge to rest of UK students. UCU is supportive of strong accountable and transparent university governance, which promotes responsible institutional autonomy that is founded on strong principles of collegiality and academic freedom.

THE ECONOMY AND PUBLIC FUNDING

UCU considers it vital that the Business, Innovation and Skills Committee considers what the economic impact of independence will be, given that the state of the economy will influence the shape of higher education in important ways, including the levels of public and private investment, student demand, taxation, and tuition fees. The current options for Scotland's economy, whether independent or part of the UK, are not appealing. If Scotland remains as part of the UK it will be bearing its share of the Coalition government's austerity cuts in the Comprehensive Spending Review, some of which must inevitably impact upon current levels of government funding for higher education. An independent Scotland presumably inherits its share of the UK debt, and given the proposal to retain sterling, an inextricable link to the rest of the UK economy will remain.

UCU has consistently argued for greater public funding for higher education across the UK, proposing to bring UK corporation tax in line with OECD averages to direct this additional income into the higher education sector. We are clear that employers benefit from the skills, education and knowledge of the graduates that they employ, but employers are not contributing as fully as they could to the higher education system which provides well qualified graduates each year. It is far from certain that an independent Scotland would be more conducive to UCU's preferred socio-economic model of greater public funding of higher education. Whilst there may be a popular consensus in Scotland for universal provision: prescriptions, personal care, and higher education, for example; the economic models espoused by Scotland's First Minister are based on low taxation and minimal regulation, whilst the Scottish Labour leader is raising questions on "universal benefits".

The lack of clarity on the situation regarding European Union membership for an independent Scotland, a United Kingdom, or a "rest of UK" scenario (given the proposal for a UK-wide referendum post 2015), raises a plethora of questions, especially on student tuition fees in Scotland. Rest of UK fees currently provide an important source of income to Scottish universities, and uncertainty on an independent Scotland's EU membership as well as possible transition arrangements, could be damaging and result in loss of income.

Scotland is perceived to do well from UK-wide Research Council funding on a population-funding analysis, but this success can be partly explained by the fact that Scotland has around 12% of the UK's academic staff. Continued and sustainable research funding is vitally important to Scottish higher education, and universities need to know whether funding will be provided on a cross-border basis in the event of independence, or via a separate Scottish body.

PUBLIC POLICY

As acknowledged by the Business, Innovation and Skills Committee, the current UK Government's immigration policies are particularly damaging to higher education in Scotland and across the UK, because of the restrictions placed on international staff and student recruitment. However, it is unclear how immigration policy would develop in an independent Scotland, and there are implications for both north and south of the border if Scotland has an immigration policy which is vastly different to that of the rest of the UK. A more open immigration policy could lead to greater recruitment of overseas students and staff. Further, the "Fresh Talent" initiative could be reintroduced whatever the constitutional settlement, whereby graduates get a two year work visa upon graduation. This was successfully pioneered in Scotland some years ago, before becoming UK wide policy, and then removed for all by the present Westminster Coalition.

Whilst Scottish higher education has avoided some of the worst excesses of the market and privatisation of higher education as experienced south of the border, many in the Scottish system see higher education as a business to make profit, and there are no guarantees that changing the constitutional set up will reduce the growth of the market within the higher education sector.

WIDENING ACCESS TO HIGHER EDUCATION

The sector in Scotland is attempting to address poor widening access levels at the moment through Outcome Agreements between institutions and the Scottish Funding Council, and the Post-16 Education Act commits universities to do more on increasing access. Nevertheless, the ability of universities to widen participation is inextricably linked to funding levels, and also relies on other educational and social levers, including pre-school education and tackling poverty initiatives. Therefore, the ability to increase participation in higher education, and to ensure students from non traditional backgrounds benefit from a university education, will depend on both political will and funding provisions, whether in a devolved or independent context.

LABOUR MARKETS AND COLLECTIVE BARGAINING

Universities currently maintain collective pay bargaining arrangements on a UK-wide basis, reflecting the vast labour market for the sector, which for many institutions and disciplines operates not only at a UK level, but at a worldwide level. Scotland has a very diverse university sector, with world-leading institutions, small specialist institutions, ancient and modern universities, as well as institutions which serve local communities as well as having unique applied research specialism. It is important that the sector is able to negotiate pay on a fair, efficient and sector led basis; and from both employers and employees' perspectives there is a strong case for continued cross-border arrangements or co-ordination.

Academic and related staff in Pre-92 institutions in Scotland are members of the Universities Superannuation Scheme (USS). Academic staff in Post-92 universities are members of the Scottish Teachers' Superannuation Scheme, with support staff across the sector being members of a variety of local government pension schemes or some institutional based schemes. Sustainability of pension provision is crucial for the sector, regardless of the constitutional set up. Clarity is needed on the operation of cross-border pension schemes, such as USS, in the event of independence, particularly in terms of any allocation of liabilities.

GOVERNANCE AND ACADEMIC FREEDOM

Significant work has been undertaken on enhancing university governance in Scotland over the past couple of years. UCU strongly supports the recommendations of the Professor Von Prondzynski review of higher education governance, and is calling for their full implementation. We also consider that the sector in the rest of the UK could benefit from the work on governance that has taken place in Scotland. Academic freedom is enshrined in the Scottish Further and Higher Education Act 2005. However, under funding and market pressures threaten good governance and academic freedom, as university managers work to get more for less, often with cheap casualised labour, and strive towards the concept of teaching and research "excellence". Competition induced by the market along with managerialism works to undermine traditional academy collegiality and the value of education for education's sake.

It seems unlikely that different constitutional settlements will reduce the influence of the market on higher education in Scotland, however UCU believes that better, inclusive and transparent governance systems, which value the academy, staff and students can make a difference.

4 July 2013

Written evidence submitted by the Wellcome Trust

KEY POINTS

- Biomedical research in Scotland is internationally competitive. The Wellcome Trust has a long-track record of funding Scottish researchers, providing more than £600 million over the past decade.
- The Trust's eligibility criteria for funding institutions in Scotland would have to be reviewed if Scotland were to become independent. The model of funding we have adopted in the Republic of Ireland, where we fund in partnership with the Irish Health Research Board and Science Foundation Ireland, provides an approach that may be of interest to the Committee.
- The implications of Scottish independence for the regulation of research will also need careful consideration. A number of UK-wide bodies, including both the Human Tissue Authority and the Human Fertilisation and Embryology Authority, currently have responsibility for regulating research in Scotland. Because science is a collaborative enterprise, any difference in the regulations and governance surrounding research can restrict international partnerships. We note that differences in legislation in Scotland and England already hamper some cross-border research.

INTRODUCTION

1. The Wellcome Trust is pleased to be able to respond to the Business, Innovation and Skills Committee inquiry into the implications of Scottish Independence for business; higher education and research; and postal services. The Wellcome Trust has a long track-record of funding researchers in Scotland, and we value the excellence of the science and institutions north of the border.

2. Over the past ten years, the Wellcome Trust has provided more than £600 million of competitive funding to researchers in Scotland. Much of this funding is awarded through grants to researchers in Scottish universities. For example, in the last five years we have awarded approximately £100 million each to the University of Edinburgh and the University of Dundee. We also fund research in NHS hospitals, and we have supported the development of health informatics in Scotland, initially providing funding to the Scottish Health Informatics Programme and more recently to the e-health informatics research centre, HERC Scotland. We have also provided awards to support public engagement, for example through the Glasgow Science Centre, and we have provided translational funding to Scottish companies, including over £1 million to Cardiodigital Ltd. The scope of our funding in Scotland is therefore both significant and varied.

3. We are not yet in a position to say what the impact of Scottish independence would be on the Trust's funding. Our future commitment, and the eligibility of Scottish Institutions for Trust support, would need to be reviewed; there is no guarantee that our funding would be maintained at current levels. The majority of the Trust's awards are provided to researchers in UK institutions; the funding that we provide overseas is largely focused on low-and middle-income countries.

4. However, we do also provide some funding to the Republic of Ireland and the model we have adopted might be of interest to the Committee's inquiry. Prior to 2010, the eligibility criteria for applicants from the Republic of Ireland were the same as for applicants from the UK, for historic reasons. This eligibility was reviewed in 2010 and the Trust developed a Memorandum of Understanding with the Irish Health Research Board (HRB) and Science Foundation Ireland (SFI). In a partnership arrangement, the Trust now provides 50% of the cost of science-related Investigator Awards, Fellowships and Strategic Awards in the Republic of Ireland, with the remaining 50% being jointly funded by HRB and SFI.⁵⁸ The Trust is responsible for the administration of grant applications and awards made under this Partnership.

5. Recognising the excellent, internationally competitive biomedical research in Scotland, it is possible the Trust would consider discussing a similar arrangement with the Scottish Government, were devolution to take place. We would only consider funding in Scotland if the Government were also prepared to support a sustainable research environment. We note that at the moment the Scottish Funding Council provides dedicated funding which allows charities to award grants to support the direct costs of research while the Government provides top-up funding to cover the associated infrastructure and general running costs. As a minimum, maintaining this element of support for charity research would be essential.

6. In addition to the financial impact, Scottish Independence may have other implications for research in Scotland. In particular, the implications for the regulation of research will need careful consideration. For example, although Scotland has its own human tissue regulation, it has delegated the regulatory responsibility to the UK Human Tissue Authority. The Human Fertilisation and Embryology Authority also regulates human embryo research across the whole of the UK. An independent Scotland (assuming it was part of the European Union), would also need competent authorities under EU legislation, for example an equivalent of the Medicines and Healthcare Regulatory Authority (MHRA) in relation to regulation of clinical trials.

7. Science is a collaborative enterprise. Any difference in the regulations and governance surrounding research can restrict international partnerships. We note that differences in legislation in Scotland and England already hamper some cross-border research. For example the Adults with Incapacity (Scotland) Act 2000 has different requirements from its English equivalent, the Mental Capacity Act for England and Wales (2005) which has led to some difficulties when developing multi-site clinical studies. Differences in the regulations and governance systems that introduce additional burdens, or that are perceived to be burdensome, can restrict international collaborations and make countries less competitive. Currently, although the ethics committee systems in England, Wales and Scotland are devolved, by agreement they have developed an impressive system that appears to be UK-wide to researchers and therefore facilitates UK-wide studies. Introducing new and different sets of approvals could jeopardise Scotland's competitive position for research.

8. We recognise that Scotland has often led the UK in establishing supportive environments for research. The research exemption in the Scottish Freedom of Information Act has been a useful model for discussions in England. Within the health service, Scotland has very effectively streamlined its R&D approvals process through NHS Research Scotland, and is also widely acknowledged as leading the way in establishing an effective framework and infrastructure to capitalise on the potential of electronic health records.

June 2013

⁵⁸ For further information, see: <http://www.wellcome.ac.uk/Funding/Biomedical-science/Application-information/wtx062869.htm>