



House of Commons
Scottish Affairs Committee

The Referendum on Separation for Scotland: The Need for Truth

Second Report of Session 2013–14

Report, together with formal minutes

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The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/scotaffcom. A list of Reports of the Committee in the present parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

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Summary

The people of Scotland will vote next year in a referendum to decide whether or not Scotland remains part of the United Kingdom. This question is one of huge significance. If Scotland leaves the Union, the constitutional, practical, economic and financial issues will be enormous.

Since 2011, the Scottish Affairs Committee has carried out extensive inquiries into these issues. We have sought to clarify the questions that must be answered before the Scottish people vote. The Scottish Government has now announced that it will publish on 26 November this year a White Paper setting out its proposals for a separate Scotland. This report sets out the key standards which the Scottish Government's White Paper must meet.

This report focuses on three main principles:

First, the status of the White Paper itself, and the consequences which follow from its being produced, at public expense, as a publication of the Scottish Government, and not the Scottish National Party or the Yes campaign. We believe that it must meet the highest standards of accuracy and clarity.

Second, the question of what the White Paper can properly say about separation, how separation might come about, and what a separate state would look like. We argue the paper must openly acknowledge the risk that Scottish Government's negotiation objectives, for instance on currency and on EU membership, will not be met, and it must present credible alternative options and means of achieving them.

Third, the questions of what it would be appropriate for the White Paper to say about the policies which might be pursued in Scotland after separation and the scrutiny which it will be appropriate to apply to such material. We say that the paper must not make unfounded public spending promises, and must be honest about the challenges Scotland would face in the event of separation.

Our report draws attention to several key areas in which we believe the Scottish Government has not been clear to date about the reality of the choices facing Scotland. These include currency issues, EU membership, and public spending commitments such as pensions. We argue that the White Paper must deal honestly with these and other issues. We understand that it will be a political document that will present a case for the "yes" campaign; but we argue it must also give a full and fair picture of what it would mean for Scotland to leave the Union.

1 Introduction

1. In October 2011, following the Scottish Government's announcement that there would be a referendum on separation for Scotland, this Committee launched two strands of inquiry. One was on the process and mechanics of a referendum; the other was on the unanswered questions which we believed the Scottish Government would need to address before that referendum.

2. We published our process reports on ensuring the referendum process was legal, whether it was possible to hold a multi option referendum, and how to ensure that the question was unbiased.¹ For the past two years we have worked on identifying and clarifying some of the questions we believe need to be answered, to allow the Scottish people to make a fully informed choice. As part of the process we have held numerous evidence sessions, in Westminster and in Scotland. We have published a number of detailed reports, on subjects including defence, shipyards, and the future of Trident.² We have heard evidence on Scotland's fiscal and economic position, and the likely impact of separation; on the currency choices that would be open to Scotland; and on constitutional issues, including the question of whether Scotland could or would retain membership of important international organisations, such as the European Union and NATO.

3. On 19 October 2013, the First Minister for Scotland announced that The Scottish Government will produce its White Paper on independence at the end of November 2013,³ approximately 10 months before the referendum, which is due to be held on 18 September 2014.⁴ In this report, we set out the expectations which, in our view, the Scottish people can properly have of this White Paper, based on the evidence we have heard in our inquiry and on the material produced by the Scottish Government, the UK Government and others, on the issues which the White Paper must cover. The Committee believe the Scottish Government must answer these questions before the people of Scotland vote in 2014.

4. The White Paper will be a very important part of the information available to the people of Scotland when they make their decision about separation. They have a right to expect the highest standards of accuracy, probity and openness from Scottish ministers about their plans and the issues which arise from them. They also have a right to expect full and thorough scrutiny of the White Paper, and that is a process to which we will continue to contribute over coming months. In this report we set out the expectations which in our

1 Eighth Report of Session 2010-12, *The Referendum on Separation for Scotland: Do you agree this is a biased question?*, HC 1492; Second Report of Session 2012-13, *The Referendum on Separation for Scotland: making the process legal*, HC 542; Third Report of Session 2012-13, *The Referendum on Separation for Scotland: a multi-option question?*, HC 543; Sixth Report of Session 2012-13, *The Referendum on Separation for Scotland: The proposed section 30 Order — Can a player also be the referee?*, HC 863

2 Fourth Report of Session 2012-13, *The Referendum on Separation for Scotland: Terminating Trident — Days or Decades?*, HC 676; Seventh Report of Session 2012-13, *The Referendum on Separation for Scotland: Separation shuts shipyards*, HC 892; Eighth Report of Session 2012-13, *The Referendum on Separation for Scotland: How would Separation affect jobs in the Scottish defence industry?*, HC 957.

3 The Scotsman newspaper, *Scottish independence: White Paper out in November*, 19 October 2013

4 BBC news website, *Scottish independence: Referendum to be held on 18 September, 2014*, 21 March, 2013, available at www.bbc.co.uk

view the White Paper should meet, if it is to be of the standard which the Scottish people deserve. We also list the issues on which we believe scrutiny of the White Paper should focus.

5. In this report, we therefore comment on three main areas relating to the White Paper:

- First, the status of the White Paper itself, and the consequences which follow from its being produced as a publication of the Scottish Government, and not the Scottish National Party or the Yes campaign.
- Second, the question of what the White Paper can properly say about separation, how separation might come about, and what a separate state would look like.
- And third, what it would be appropriate for the White Paper to say about the policies which might be pursued in Scotland after separation and the scrutiny which it will be appropriate to apply to such material.

2 The Status of the White Paper

6. A referendum on separation is of course an unprecedented event, and there are no established rules about the appropriate roles for the UK or Scottish governments, the political parties, the campaigns and others involved. It is therefore inevitable that new ground will be broken. It is, however, significant the Scottish Government has chosen to produce its plans for separation as a Government White Paper, rather than as a manifesto from a political party, from the nationalist movement or from the Yes campaign.

7. As we heard in evidence we took for our previous report, *The Referendum on Separation for Scotland: making the process legal*, constitutional issues such as separation are legally reserved to Westminster, and are outside the powers of the Holyrood parliament and Scottish Ministers.⁵ As we noted in that report, both the UK Government and legal experts made clear that the Scottish Government did not have the power to legislate on the reserved matter of the constitution.⁶ For instance, Professor Adam Tomkins, of the University of Glasgow School of Law, told us:

If the question is “Should Scotland remain in the United Kingdom” that is a question on a reserved matter and should therefore be asked (if at all) by HM Government under the authority of an Act of Parliament.⁷

Mr Aidan O’Neill QC, of Matrix Chambers, told us:

Neither the Scottish Parliament nor the Scottish Ministers have the legal powers to hold a referendum on independence for Scotland under the Scotland Act 1998 in its current form.⁸

8. The UK Government unequivocally endorsed this view in its consultation paper, *Scotland’s Constitutional Future*, which clearly stated that “the Scottish Parliament does not have the legal authority to hold an independence referendum.”⁹ Only the subsequent Order made under section 30 of the Scotland Act 1998 bestowed on the Scottish Government the legal authority it needed to hold the referendum.¹⁰

9. Despite what could be seen as the highly political nature of the referendum project, the Scottish Government has chosen to produce its independence plans as a Government document. In doing so it must avoid using public money to promote a party political agenda. This criticism will have all the more force if the White Paper does not meet the highest standards of accuracy and clarity. There are standards to which government

5 HC 542, Session 2012-13; see for example paras 38-39

6 Scottish Affairs Committee, Second Report of Session 2012-13, HC 542

7 *The Referendum on Separation for Scotland: Oral and written evidence*, Session 2010-12, HC 1608, Ev 155

8 HC 1608 Ev 168

9 Scotland Office, *Scotland’s Constitutional Future: A Consultation on facilitating a legal, fair and decisive referendum on whether Scotland should leave the United Kingdom*, Cm 8203, January 2012, p. 6

10 The Scotland Act 1998 (Modification of Schedule 5) Order 2013, made 12 February 2013

publications can properly be held, as the public has a right to expect that material which is presented to them is accurate, not misleading, and fully discloses all the relevant issues. **Although the Scottish Government now has the legal power to hold a referendum, by promoting such a significant constitutional change, it has now travelled outside its previous devolved legal remit. The Committee believes that, in promoting a “yes” vote, the Scottish Government must not use public resources in support of a party political project. Its official publication, the White Paper, must be above reproach.**

Standards in the use of national statistics and other data

10. Of course we understand that Scottish Government ministers will wish to present the arguments for independence, and seek to make them as persuasively as possible. They have every right to do that, but in an official publication, which seeks to attract the authority of government to their statements, we believe they are under a duty to meet the highest standards of probity, accuracy and openness.

11. The Committee believes that the present Scottish administration, in relation to separation, is strongly motivated to present a selective and biased account of the facts. To some extent, this may be seen simply as the rough and tumble of political argument. But this White Paper is too important for that. The Committee is concerned that, to judge from recent events, the Scottish Government is prepared to present information in what we, and others, consider to be a selective and misleading way in support of its cause.

12. In the run-up to this White Paper the Scottish Government have produced a number of policy documents. For example, in September 2013 it set out its assessment of the implications of separation for pensions.¹¹ But it did not include important and relevant data. The Chair of the National Statistics Authority, Sir Andrew Dilnot, in his reply to a letter from Alistair Darling MP of the Better Together Campaign, pointed out this fact:

[...] we note the omission from the paper of analysis of published official projections showing that the dependency ratio for people of pension age is projected to be higher in Scotland than the UK average in the period to 2035 [...]. This is readily available information and would seem to be relevant to the debate. Instead the paper presented analysis showing the dependency ratio for children and people of pension age combined. [Emphasis added]¹²

13. There are other questions to answer regarding pensions, and we will return to this important issue below. But, in this context, the Committee is especially concerned that the Scottish Government has produced a document which, according to an independent body, makes incomplete use of National Statistics. **The content of the forthcoming White Paper will be of the greatest importance in allowing the people of Scotland to make an informed decision over Separation. It must meet the highest standards of accuracy in the use of data and statistics.**

11 The Scottish Government, Pensions in an Independent Scotland, September 2013, Edinburgh.

12 Letter from Sir Andrew Dilnot to Alistair Darling MP, dated 28 October 2013, available on www.statisticsauthority.gov.uk

The comparison with the devolution White Paper of 1997

14. The White Paper will be a very important contribution to the debate about separation, as it will set out the position and the aspirations of the Scottish Government. It has frequently been referred to as a “prospectus” for independence.¹³ There is, however, an important sense in which this is misleading. There will inevitably be many matters in the White Paper which will not be in the gift of the Scottish Government, or indeed Scotland itself, in the event of separation. They will have to be negotiated with others, most importantly the UK Government, who will be obliged to look after the interests of the rest of the United Kingdom. So it is not accurate to describe the White Paper as a prospectus in the sense that, if the Scottish people vote for separation, the Scottish Government could then guarantee to deliver all the things it promises. We hope that the Scottish Government will openly acknowledge this reality, and the inevitable uncertainties which follow from it. If they do not, the White Paper will be rightly subject to challenge on grounds of credibility.

15. In particular the Committee believes the White Paper should not be portrayed as having the same status as the White Paper on devolution in 1997.¹⁴ It may suit Scottish Government ministers to draw an analogy between devolution and separation, and to suggest that separation is the logical next step from the devolution decision which the Scottish people took in 1997. They have sought to do this in a number of public statements; for instance, in the foreword to the most recent Scottish Government legislative programme, the First Minister said that a vote for independence would “complete the decision-making powers of the Scottish Parliament and Government.”¹⁵ However, in voting “yes” to the two questions they were asked in 1997, Scottish people opted for devolution within the union. By contrast, separation would mean the end of devolution.

16. Another important distinction between the two white papers should be made clear to voters. The then Labour Government published its devolution White Paper after having won an election with a manifesto commitment to create a Scottish Parliament, and with a substantial and secure majority in the House of Commons to enable them to pass the necessary legislation.¹⁶ That Government was in a position to deliver exactly what it promised. If the Scottish Government continues to draw analogies between the two referendums and the two white papers, it will be implying something which is not true: that it is in a position, after a vote in favour of separation, to deliver separation on the terms it has drafted without reference to others. This is not certain; as we shall argue below, it is not even probable. **The Committee believes the White Paper must make it clear that its plans and promises cannot be guaranteed if the “yes” campaign wins the referendum, and that it is a different and more uncertain document than the 1997 White Paper.**

13 BBC News website, SNP conference 2013: Salmond makes the case for 'Yes', www.bbc.co.uk/news/scotland, 19 October 2013; The Herald newspaper, Carmichael tells CBI chiefs it is 'answer season' on independence, 30 October 2013, www.heraldsotland.com

14 Scottish Office, Scotland's Parliament, Cm 3658, July 1997

15 Scottish Government, Empowering Scotland: the Government's Programme for Scotland 2013-14, September 2013

16 House of Commons Library Research Paper, General Election results, 1 May 1997, Research Paper No 01/38, 29 March 2001

3 Separation and the creation of an independent state

17. It will be right for the Scottish Government to set out in their White Paper its proposals for how separation would work, how a separate state would be created and how such a state might organise itself, for example, what sort of constitution it might have. The Scottish Government is fully entitled to make its arguments as to why this is a better course for the Scottish nation. Others will be equally entitled to disagree.

Acknowledging risk and uncertainty

18. The Committee would expect the White Paper to set out how separation would allow Scotland to make its own decisions on matters presently dealt with by the UK, and to argue that this will offer opportunities for Scotland to change, be different from the UK or from the way Scotland is at present. Of course, it is not necessarily a criticism of separation to say that it involves risk and uncertainty; that is the inevitable consequence of striking out in a new direction. Nationalist Ministers are entitled to argue that the potential prize outweighs the risks. **The Committee believes it is important, however, that, as a Government document, the White Paper does not ignore, or seeks to gloss over, the fact that risks and uncertainties exist. If it does, we think it will be rightly subject to criticism.**

The process of separation

19. In the same way, we believe it is very important that the White Paper should set out exactly how the Scottish Government envisages the process of separation taking place. The transition from being part of the United Kingdom to becoming a separate state is one of the most complex and difficult challenges any Government could face. The main aspect of this will be negotiations with the United Kingdom Government, and with other international organisations as well, such as the European Union and NATO. The process of negotiation will inevitably involve many different issues. In this connection we welcome the suggestion from the Scottish Government that they would seek the widest possible support from within Scotland to build up the sort of negotiating team that would be needed.¹⁷ It would certainly be a case of all hands to the pump. **In these circumstances, we as a Committee would expect to play a major role in the negotiating process.**

20. A significant issue which arises in this context is that of how long the process of negotiation would take. The list of issues for negotiation is certainly formidable, and of course the issues will be interconnected. Negotiations will be with the UK Government, but also with the European Union, perhaps via the UK as the member state, with NATO and no doubt with other bodies. Decisions will have to be taken about vitally important economic questions, such as the currency; about critical issues of international relations such as EU membership and its terms; on vital issues of national defence and security,

¹⁷ The Scotsman newspaper, Scottish independence: McLeish backs SNP appeal to rivals, 13 October 2013

including the future of the UK defence assets in Scotland; on the division of the UK's assets and liabilities; about what transitional arrangements would be needed, and many other matters. It is inevitable that many of the issues will be contested, and potentially controversial, within Scotland, as well as between Scotland and the rest of the UK. As is common in international negotiations, it may well prove difficult to settle certain matters until other issues, which may not seem directly connected, have been resolved as well.

21. The Scottish Government's White Paper will have to set out realistic plans for managing these negotiations, for how long they will take, and what will happen if, as may be likely, they drag on longer than expected. The Committee feels that the approach of the Scottish Government so far has been disappointing. Its recent paper suggested that the process of negotiation can be over in a remarkably short period of time—15 months.¹⁸ It would appear that this timetable has been drawn up in order to meet the date which the Scottish Government has announced as “Independence Day” – before the end of March 2016.¹⁹ The Scottish Government justify this short time period by means of comparisons to what the paper describes as similar situations in other countries which have become independent following referendums. However, these were overwhelmingly examples of countries becoming independent following decolonisation, not the disentangling of a highly integrated, complex modern state.²⁰ The Committee notes that it took longer than 15 months to negotiate the arrangements for this referendum. Unless the Scottish Government's plan is simply to agree to any and all demands from its negotiating partners, it seems very unlikely to us that negotiations of this weight and complexity can be guaranteed to be completed in such a short period. **We will therefore expect that the White Paper should set out a realistic process and timetable for negotiations, and sensible contingency plans for dealing with the issues which may arise should they be extended, in particular what will happen if agreement has not been reached by 1 April 2016, the Scottish Government's pre-determined date for separation to take effect. If it fails to do so, questions will be asked as to how serious and credible the proposals are.**

The reality of negotiations: European issues

22. We have already noted the complex nature of the negotiations that would ensure if Scotland voted for Separation. No Government could enter negotiations of this complexity and importance and guarantee to deliver all of its objectives. It is entirely reasonable for the Scottish Government to set out in the White Paper what those objectives would be. But it should also acknowledge the uncertainties which the negotiation process brings. The Committee is concerned that, unfortunately, there must be a strong possibility that the Scottish Government will seek in the White Paper to present a misleading picture of how the other parties to the negotiations are likely to react. Our concern is based on the track record of Scottish ministers so far. They have shown themselves prone simply to assert that

18 Scottish Government, “Scotland's Future: from the Referendum to Independence and a Written Constitution”, Edinburgh, February 2013, p.10.

19 “These agreements would establish the timetable towards independence day – which the Scottish Government would intend to be in March 2016, just before the start of the 2016 election campaign.” Ibid, p.11

20 Ibid, p.10

the United Kingdom Government or the European Union, for example, will be prepared to accept the Scottish Government's hopes for the way in which the negotiations should turn out, when this is not certain, or even when there are very clear indications that they would not do so. We set out several examples of this tendency here.

23. The question of EU membership for a separate Scotland is obviously of great importance. It is important for Scotland's trading relationships, for its position in the world, for the employment opportunities presented to Scots and for many other reasons. It is also very important for Scotland's relationship with the rest of the United Kingdom. If Scotland were not part of the EU, and the rest of the UK was, then the consequences for travel and borders, trade and many other issues would be very significant. The future of Scotland's EU membership is therefore a critical issue for voters to understand if they are to make a well-informed choice in the referendum.

24. The Scottish Government, however, has not been willing to acknowledge that there is uncertainty on this subject. For a prolonged period many people were misled into believing that the Scottish Government had legal advice from the Scottish Law Officers which indicated that EU membership for a separate Scotland would be "automatic".²¹ The Scottish Government was happy to allow this impression to remain. For instance, in June 2012, the Deputy First Minister told MSPs in the Scottish Parliament that "An independent Scotland will be a member of the European Union", and that to argue otherwise would be "absurd."²² But four months later, on 23 October 2012 the Deputy First Minister told MSPs that the Scottish Government had "cited opinions from a number of eminent legal authorities [...] but [had] not sought specific legal advice."²³ **The Committee believes the record shows that the Scottish Government has misled MSPs, and voters, on the topic of EU membership.**

25. This Committee has received extensive evidence about the question of EU membership.²⁴ It is clearly a complex mixture of legal and political issues. The European Union is a uniquely complex international organisation, and has shown itself capable of dealing with a wide variety of circumstances not expected at the time of the drafting of the treaties. Nevertheless, those treaties and EU law do not make provision for how a secession from a member state should be dealt with.²⁵ In those circumstances there will inevitably be both legal and political issues in play.

21 Repeated assertions that Scotland would continue as an EU member state include: "it is the clear view of the Scottish National Party and the Government that Scotland would automatically be a member of the European Union upon independence", Nicola Sturgeon, Scottish Parliament, Official Report, European and External Relations Committee, 11 December 2007, c 231, 232; "[in the event of] independence: Scotland would assume all the responsibilities and rights of a normal European state, including membership of the European Union", A National Conversation: Your Scotland, Your Voice, The Scottish Government, 2009;

22 Scottish Parliament Official Report 21 June 2012, col 10388

23 Scottish Parliament Official Report 23 October 2012, col 12408

24 E.g. on 13 February 2013, Rt Hon Michael Moore MP, Rt Hon David Mundell MP, and Rt Hon Lord Wallace Of Tankerness QC, HC 139-xviii; on 16 May 2012, Patrick Layden QC, Scottish Law Commission, and Professor Andrew Scott, University of Edinburgh, HC 139-I

25 HM Treasury, Scotland analysis: Devolution and the implications of Scottish independence, Cm 8554, Feb 2013, p.8

26. The evidence we received was not unanimous. Patrick Layden QC told the Committee that “we in this country, whether here in London or up in Edinburgh, cannot determine that we will continue as member states of the European Union on the same or comparable terms to those that we enjoy now. That is not something that we control.”²⁶ Professor Andrew Scott, of the University of Edinburgh, took a different view, arguing that Scotland would retain its membership.²⁷

27. The UK Government's Scotland Analysis paper included a very authoritative legal analysis of the position of Scotland and the UK in the event of separation, stating very clearly that the United Kingdom would be the continuing state, and that Scotland would be a new state, meaning any bid to join the EU would be subject to unpredictable negotiations:

[...] an independent Scottish state could not automatically become a new member of the EU upon independence because there is no explicit provision for this process in the EU's own membership rules. Neither would an independent Scottish state automatically ‘inherit’ the UK's opt-outs [...] as there is no precedent for one part of a Member State becoming independent and then seeking to become a Member State of the EU in its own right, it is not possible to say with any certainty now what such a process would entail in the event of Scottish independence or how long this might take. In practice, rather than being purely a matter of law, the mechanism for an independent Scotland becoming a Member State of the EU would depend on the outcome of negotiations and on the attitude of other Member States and the EU institutions. Nobody can say with certainty now what the outcome of those negotiations would be.²⁸

28. This seems obvious, as the creation of a new state is the whole purpose of separation. But it means that Scotland would have to seek membership of the EU, and the decision on whether to grant a request would be a matter for the other member states, operating within the EU legal framework. Yet the Scottish Government has only recently acknowledged that the position is not straightforward, by admitting the absence of legal advice, and that need to acquire it; and by conceding that membership negotiations would be needed.

29. The Committee believes this episode has created mistrust, and that the Scottish Government's White Paper will have to be completely open about the legal advice which the Scottish Government has received; about whether that accords with the views set out in the UK Government's analysis; and about the implications for EU membership and its terms. The Scottish Government has now stated that it would expect to negotiate membership before separation took effect, and that the UK Government would be expected to assist it in this process; in a recent speech Scotland's Deputy First Minister said:

26 HC 139-I, 16 May 2012, Q3. Patrick Layden is a Scottish law commissioner but spoke in a personal capacity.

27 HC 139-I, 16 May 2012, Q4

28 HM Treasury, Scotland analysis: Devolution and the implications of Scottish independence, Cm 8554, February 2013, p.50

We consider that it is possible to prepare and publish a “precise scenario” that will provide the European Commission with the information it needs to consider Scotland’s intention to remain in the EU after independence, and we continue to call on the UK Government—as existing member state—to join with us in making such a submission.²⁹

At the very least, the Committee believes the White Paper must set out the issues which the Scottish Government expects to be dealt with in any EU Membership negotiations, what objectives it would hope to achieve, and what alternatives there are if it is unable to achieve those objectives by 1 April 2016.

Currency issues

30. Similar, and perhaps even more significant, issues arise in relation to the Scottish Government's policy on what currency a separate Scotland would have. First Minister Alex Salmond said in a July speech that “For Scotland [...] we will retain the pound. We would use our sovereignty to negotiate a formal currency union with the rest of the United Kingdom.”³⁰ Then and more recently, Scottish ministers have repeatedly stated that the policy is that there should continue to be a sterling currency union with the rest of the United Kingdom after separation.³¹

31. But as evidence taken by this Committee has shown, this is by no means obviously the right answer for a separate Scotland or for the rest of the United Kingdom after separation. For instance, Martin Wolf, Chief Economics Commentator of the *Financial Times*, told us:

Let us assume that Scotland votes for independence. There will then be negotiation. One of the questions in the negotiation will be the future monetary arrangements. Maybe—I have no idea—the Scottish Government will suggest it would like to remain part of the sterling monetary area. I would assume the rest of the UK Government would respond by saying, “That’s a very interesting idea. Let’s discuss the implications.” All the issues we have just been discussing would come up for negotiation. It is perfectly possible that no agreement would be reached. Thinking about the many difficulties we have discussed just in the monetary area, it is completely possible that this arrangement, which in my view is an unprecedented one, could not be agreed.³²

29 Scottish Government website, Deputy First Minister Nicola Sturgeon, Speech at European Policy Centre, Brussels, February 26, 2013

30 Scottish Government website, 16 July 2013, speech on “The Currency Union,” available at <http://news.scotland.gov.uk/Speeches-Briefings>

31 See for example Scottish Government, Currency Choices for an Independent Scotland: Response to the Fiscal Commission Working Group, April 2013.

32 Minutes of Evidence taken by the Scottish Affairs Committee, The Referendum On Separation For Scotland, Wednesday 14 March 2012, HC1608, Q390

32. The UK Government's Scotland Analysis paper on currency and monetary policy³³ set out a very full analysis of the issues. It argued that it may not be in the UK's interest to enter a currency union with a separate Scotland:

[...] even with constraints in place, the economic rationale for the UK to agree to enter a formal sterling union with a separate state is not clear. The recent experience of the euro area has shown that it is extremely challenging to sustain a successful formal currency union without close fiscal integration and common arrangements for the resolution of banking sector difficulties.³⁴

33. The evidence we heard from the Chief Secretary to the Treasury and the Secretary of State for Scotland explored these issues fully.³⁵ The Committee were told very clearly by the Chief Secretary to the Treasury that “currency union is unlikely to be in the interests of either an independent Scotland or the rest of the United Kingdom.”³⁶ It is perfectly plain that the view of the UK Government is that it would not be in the interests of the rest of the UK to maintain a currency union with Scotland if it were a separate state. The reasons for this have been fully set out in evidence to us. What is also clear is that a separate Scotland could not oblige or require the rest of the United Kingdom to participate in a currency union if it did not wish to do so. The Scotland Analysis paper explains the point:

The principles and terms of a formal sterling currency union would be subject to agreement with the continuing UK. A formal sterling currency union would only be possible if both an independent Scotland and the continuing UK could reach an agreement that satisfied both countries' economic interests.³⁷

34. Despite the evidence to the contrary, Scottish ministers continue to maintain the position that after independence there will be a currency union, and that the rest of the UK will agree to this.³⁸ Two arguments are adduced in support of this proposition. The first is simply to assert that it will be in the interests of the rest of the UK to do so.³⁹ This flatly contradicts the analysis of the UK Government, which will be the body responsible for assessing the interests of the rest of the UK. The second argument is that a separate Scotland would in some sense “own” some of the pound sterling, and that the UK could not deny Scotland the opportunity to use that currency.⁴⁰

33 HM Treasury, Scotland analysis: Currency and monetary policy, Cm 8594, April 2013

34 Ibid, p.8

35 Uncorrected Transcript of Oral Evidence taken by the Scottish Affairs Committee, The Referendum On Separation For Scotland, Wednesday 23 October 2013; Rt Hon Danny Alexander MP, Rt Hon Alistair Carmichael MP, Stephen Farrington and Chris Flatt, HC 140-viii

36 Ibid, Q 3678

37 HM Treasury, Scotland analysis: Currency and monetary policy, Cm 8594, April 2013, p7

38 BBC interview with Angus Robertson MP, 17 October 2013, available at <http://www.bbc.co.uk/news/uk-scotland-24553833>

39 BBC interview, 17 October 2013; Mr Robertson told the interviewer: “I do not think that policy makers in London are going to take an unnecessarily confrontational course and act against their own interest”.

40 BBC interview, 17 October 2013; Mr Robertson told the interviewer “people can use whatever currency they want [...] we will continue to use sterling, we will be in a shared sterling zone [...] it's not something that can be vetoed.”

35. We believe the use of this second argument lends weight to the suggestion that the Scottish Government has a fallback plan in the event that the UK Government do not agree to a currency union. It seems likely that this plan B is for Scotland to simply continue to use sterling without the permission of the UK. This option is known as “sterlingisation”, in parallel to the practice of “dollarisation”, under which some countries (mostly in the Third World) use the dollar without being in a monetary union with the US. This option was explained in evidence to us by Dr Angus Armstrong, Director of Macroeconomic Research, National Institute of Economic and Social Research, who said:

If Scotland wants to use sterling, then it can do. It could use the dollar if it wanted to. It could use lots of different currencies if it wanted to. Sterling would be the obvious and most advantageous one to use.⁴¹

36. Using a currency without formal monetary union has very significant consequences. The countries concerned have as a result no capacity to have a monetary policy of their own, and no central bank which is in a position to act as the lender of last resort to provide liquidity to financial institutions. If it were to be followed after separation the consequences for Scotland's financial services sector would be very serious indeed. The recent UK analysis paper explained:

With no ability to print money, a Scottish monetary authority could have at best only a limited function as a lender of last resort to commercial banks. The sterlingisation option would therefore impose severe constraints on monetary and fiscal policy and financial stability. A number of smaller countries have opted for this approach, but it would be likely to be too constraining for a country of the financial complexity of an independent Scottish state.⁴²

37. Evidence we heard confirmed this pessimistic view. Dr Armstrong told us:

The difference between dollarisation and a monetary union is that, if you just use sterling without any formal agreement, you don't have any access to the central bank. If you have a payments problem within your financial system and all of a sudden you need to get hold of some liquidity, then either you have to have savings to provide this liquidity yourself, presumably through the new Scottish central bank, or you have a problem. If you don't have enough savings already, then you are limiting the size of the risks that you can insure in your domestic financial system. That is why countries that dollarise, whether it is Montenegro using the euro, Panama or other states or some African countries, don't tend to have sophisticated financial systems.⁴³

38. We believe it is incumbent on the Scottish Government to state with the greatest possible clarity in the White Paper what its intentions are with regard to the currency to be used in an independent Scotland. No economic question is more important for a new country. Of course the Scottish Government is entitled to repeat that it aspires to

41 Minutes of Evidence taken before the Scottish Affairs Committee on Wednesday 12 June 2013, HC 140-I, Q 3355

42 HM Treasury, Scotland analysis: Currency and monetary policy, Cm 8594, April 2013

43 Minutes of Evidence taken before the Scottish Affairs Committee on Wednesday 12 June 2013, HC 140-I, Q 3355

have a monetary union with the rest of the UK. If so, we believe it must say what conditions it would be prepared to accept in order to secure such a union. We also believe it must set out clearly for the Scottish people what the alternatives are (whether unilateral use of sterling, the adoption of the euro, or the creation of a new separate Scottish currency), and which of these options it would prefer, and to set out openly and honestly the implications of each approach. If the White Paper fails to do this, it will rightly be subject to criticism as having no coherent economic plan for a separate Scotland.

Other issues subject to negotiation

39. Similar issues have arisen in relation to other significant elements of the potential separation negotiations. The Scottish Government has, for example, set an ambition of joining NATO, while at the same time planning to eject from Scotland the UK's nuclear deterrent submarines, which are part of the NATO nuclear umbrella. This issue was extensively discussed in evidence before us, and we got no clear picture of whether the Scottish Government saw the removal of the Trident nuclear submarines as something which could be achieved in a very short time, or whether they were prepared to contemplate Faslane and Coulport remaining in operation, as a nuclear complex, for a prolonged period. Nor did we see any evidence that the Scottish Government had addressed itself to the question how consistent this intention was with NATO membership. The First Minister has asserted that a number of NATO countries are non-nuclear, but we do not believe this answers the question.⁴⁴ Neither does the Scottish Government yet seem to have decided what the priority would be if NATO—an organisation which operates by unanimity—was unwilling to allow Scottish membership until the nuclear question was satisfactorily resolved. This issue must be properly explained to the Scottish people in the White Paper. We will consider these issues relating to defence further in another report which we plan to publish before the appearance of the White Paper.

40. Among other significant issues which have not been properly addressed is the Scottish Government's approach to the administration of pensions and benefits after separation. While the Scottish Government has asserted that pensions would not only be paid after independence but could potentially be paid on a more generous basis (a point which we discuss later in this report), it has yet to make any coherent proposal as to how the system would be administered. The Scottish Government welcomed reports from its advisers which suggested that continued shared pension and benefit administration would be in Scotland's interest.⁴⁵ However, it has not addressed itself to the question of whether or not it would be in the UK's interest to share administration on a permanent basis, and what the alternative possibilities for Scotland are. **Unless the White Paper acknowledges and addresses the very significant practical issues that would arise after separation in relation to pensions, and the similar issues relating to benefits, tax collection and other**

44 Telegraph Newspaper, "Alex Salmond reverses opposition to NATO," 19 July 2012, <http://www.telegraph.co.uk>

45 Scottish Government press release, "Expert Working Group on Welfare publishes first report", 11 June 2013, www.scotland.gov.uk

public services presently delivered on a UK basis, we believe it will be subject to serious challenge as to its credibility.

The Scottish Government's overall concept of independence

41. Important though each of these questions is in itself, taken collectively we believe they are examples of a political approach which seeks to present separation as less the creation of a new, independent, state, than the continuation of many of the aspects of the shared UK infrastructure which Scotland enjoys as part of the union. The First Minister has spoken of Scotland being a member of five unions along with the UK.⁴⁶ This approach has been described by his advisers as "Independence lite".⁴⁷ The Committee believes there is an obvious political reason for this: it is not that the Scottish Government favours union with the rest of the United Kingdom, but that it is seeking to persuade voters that separation is something which in reality it is not.

42. The Committee believes it is misleading for the Scottish Government to give Scottish voters an impression that UK arrangements will simply continue with no disruption after separation, because the UK Government will agree to do so. In fact, independence, or separation, means just what it says: Scotland will be a separate, independent state, which will have the responsibilities and opportunities of a state. A separate Scotland will want to enjoy good relations with its neighbours. But the rest of the UK will be a separate country, with a Government which will owe no obligations to the people of Scotland. That UK Government will have to take decisions in the interests of the people of England, Wales and Northern Ireland, to whom it will be accountable. **There is no reason to imagine that UK Government decisions after separation would lead to the watered-down version of independence, with shared administration and little visible change, that the Committee believes the Scottish Government is offering to voters.**

46 Scottish Government website, speech by Alex Salmond, "The Six Unions – Introduction", 12 July 2013

47 BBC website, "Alex Salmond talks up Scots-UK links", 12 July 2013

4 Scotland after Separation

43. We entirely understand that the SNP will want to argue that, after separation, Scotland has the opportunity to be different from the rest of the UK and from how it is at present, and they will want to claim that things would be better. The Scottish National Party is entitled to set out its vision of how this might be. Others are entitled to disagree and to challenge it.

Scotland's overall fiscal position

44. It is inevitable that the fiscal position of Scotland will be at the centre of this debate, and therefore inevitable that it will be controversial. Governments are obliged to present data about taxation and public spending accurately, openly, and in a way which does not seek to mislead. That is why there is an important role for bodies such as the Office for Budget Responsibility, which is independent of government and produces forecasts of taxation and spending pressures, and for academic institutions such as the Institute of Fiscal Studies and Scottish Universities to contribute to this debate. As part of the debate, what the Scottish Government has to say about the fiscal position in its White Paper will of course be subject to close scrutiny. The Committee is concerned, however, that the Scottish Government has not shown itself to be prepared to be fully open about the fiscal implications of what it plans.

45. Over the last year, many reports have been published explaining Scotland's overall position in terms of tax and spending, now and in the future. Excellent work has been done by the Institute for Fiscal Studies⁴⁸, the Centre for Public Policy for Regions at Glasgow University⁴⁹, Professor David Bell at the University of Stirling,⁵⁰ and others. In addition, the UK Government has produced an analysis of Scotland's fiscal position inside the UK as part of its Scotland Analysis series.⁵¹

46. These analyses all draw on long running work done by HM Treasury and the Scottish Government, and published in the Treasury's Public Expenditure Statistical Analysis⁵² (which, among other things, breaks down spending by the different parts of the UK) and in the Scottish Government's publication Government Expenditure and Revenue Scotland.⁵³ Both of these are long running series, which predate the current debate, and both draw on official National Statistics. There is therefore a great deal of data about Scotland's fiscal

48 Institute for Fiscal Studies, *Scottish independence: the fiscal context*, IFS Briefing Note BN135, November 2012, and *Government spending on public services in Scotland: current patterns and future issues*, IFS Briefing Note BN 140, September 2013.

49 CPPR Briefing Papers, *Analysis Of Scotland's Past And Future Fiscal Position*, March 2013, *Measuring an independent Scotland's economic performance*, April 2013, available at www.gla.ac.uk

50 Professor David Bell, *Social Protection in Scotland*, www.davidhumeinstitute.com

51 HM Treasury, *Scotland analysis: Macroeconomic and fiscal performance*, Cm 8694, September 2013

52 HMT Public Expenditure Statistical Analyses (PESA), available at www.gov.uk

53 *Government Expenditure and Revenue Scotland*, available at www.scotland.gov.uk

position within the UK from which it is possible to draw some conclusions about its likely fiscal position after separation.

47. Scottish onshore tax revenues are estimated to be slightly less, per head, than average UK revenues.⁵⁴ (The mix of revenues is slightly different, with rather less from income tax and more from consumption taxes.) By contrast, Scotland's public expenditure per head is markedly higher than the UK average. According to the Scotland Analysis Paper on Macroeconomic and Fiscal Performance:

[...] since devolution, Scotland's onshore economy has generated 8.3 per cent of the UK's receipts, which is slightly lower than a population share (which averaged 8.5 per cent over this period). At the same time, Scotland has received an average of 9.4 per cent of UK public spending. Relative to the UK generating and spending £100, this means that Scotland's onshore economy has generated £98 while Scotland's spending is £112.⁵⁵

48. This leaves the question of how a separate Scotland would make up the gap between tax revenue and public expenditure. If a separate Scotland were to receive an estimated geographical share of the U.K.'s offshore oil revenues, this difference would be partly made up, though Scotland would still be in an overall deficit, albeit at present a proportionately smaller deficit than the UK as a whole.⁵⁶

49. So, the present position is clear. But the choice of separation is about the future. We have heard evidence that oil revenues are forecast to decrease, as North Sea oil production has passed its peak and will eventually stop.⁵⁷

50. As a result, the Institute for Fiscal Studies for example has forecast that in the early years of independence, Scotland would have to make "fiscal adjustments" of between approximately £3 and £6 billion per annum, through a mixture of tax rises and spending cuts.⁵⁸ Similarly, the Centre for Public Policy for Regions suggests that additional cuts of £3 billion would be necessary to restore a separate Scotland to the fiscal position it would have enjoyed as part of the UK in the years immediately after separation.⁵⁹ It follows that, if as predicted oil revenues decline over the next 20 years, a separate Scotland would be left with a very substantial fiscal deficit indeed.

51. Of course all of these forecasts are subject to uncertainty, notably for oil revenues: the oil price will influence the amount of oil extracted, and the incentive to invest to extract more from the North Sea. As well, it is not yet certain precisely what geographical share of oil revenues would be allocated to an independent Scotland; this could be expected to form

54 Scotland analysis: Macroeconomic and fiscal performance, p 110

55 Scotland analysis: Macroeconomic and fiscal performance, p 111

56 Scottish Government, GERS 201-11, www.scotland.gov.uk

57 Scotland analysis: Macroeconomic and fiscal performance, p 21, and Minutes of Evidence taken by the Scottish Affairs Committee, 16 April 2013, Ian McMillan and Laura McMahon, HC 1093, Q40

58 The Scotsman newspaper, Balancing an independent Scotland's books, 19 September 2013

59 CPPR, Reflections on a postindependence fiscal landscape, including the potential for the development of a Savings Fund, October 2013

part of negotiations about separation.⁶⁰ A CPPR report found that “whatever the future holds, to suggest that some sort of new oil tax revenue boom is about to emerge is not readily supported by the evidence.”⁶¹

52. The Scottish Government has suggested that it could build up an “oil fund” analogous to that created by Norway.⁶² If Scotland were in surplus thanks to oil revenues this might be a wise approach, but as the analysis we quote above shows, Scotland will not be in surplus without substantial tax rises or spending cuts. The Scottish Government's latest position is that Scotland should set up an oil fund despite running an ongoing deficit, as long as it is in a position to borrow without increasing its national debt as a share of GDP;⁶³ in effect this means borrowing to set up an oil fund. In the Committee's view, this would not be an oil fund but a debt fund.

53. The Committee believes it will be important for the Scottish Government White Paper to set out in measured terms data on the long-term fiscal sustainability of an independent Scotland, taking account of the uncertainties in revenue. In particular, we believe the White Paper must acknowledge the full range of independent forecasts of oil revenues. Similarly, these long-term projections should include projections of demand for public expenditure, notably those driven by demographic changes such as those affecting pensions, which we discuss below. If the White Paper relies on optimistic short-term arithmetic it will not be a credible basis for an informed public choice.

Pensions and demography

54. Old-age pensions are among the largest single spending responsibility any government faces. (Social protection spending is one of the largest UK government programmes, and pension provision forms by far the largest element in it.)⁶⁴ Uncertainty about pensions, and about the potential effect of separation upon them, will be an understandable source of worry to many elderly people. It is therefore of the highest importance that the White Paper's approach to pensions should meet the highest standards of openness, accuracy and honesty.

55. Unfortunately, the Committee sees signs that the Scottish Government has not met those high standards in the work it has done on pensions so far. A paper on pensions produced in September of this year contained assurances that pensions in a separate Scotland would be affordable: “Independence would deliver a public service pensions system that is affordable, sustainable and fair. This system would be one that works for public sector employees, public service provision, the tax-payer, and the overall public

60 Even before any negotiation, recent observations from the Institute of Fiscal Studies show that Scottish Government calculations estimate Scotland's share of oil tax revenue at £1.3bn higher than HMRC's estimate. Institute for Fiscal Studies, Tax revenue in England, Scotland, Wales and Northern Ireland, October 2013, www.ifs.org.uk

61 Telegraph newspaper, Economists reject Alex Salmond's oil boom claim, 26 March 2013

62 Scottish Government, An oil fund for Scotland: Taking forward our national conversation, Edinburgh 2009

63 The Herald newspaper, Swinney: oil fund will allow independent Scotland to borrow, save and reduce debt without raising taxes, 2 October 2013

64 HM Treasury, Public Expenditure Statistical Analyses, 2013, Cm 8663, July 2013, Table 5.2, p71

finances.”⁶⁵ Before its publication, headlines in the press suggested workers would be “retiring earlier in an independent Scotland”, and gave the impression that in an independent Scotland there would be no need for the increase in the state retirement age currently planned for the UK.⁶⁶ It can only be assumed that these headlines, which were not borne out by the content of the paper, resulted from briefing by the Scottish Government. In fact, the paper promised only to “reserve judgement” on uprating the normal pension age.⁶⁷

56. The content of the document is also of concern. It did not make appropriate use of relevant National Statistics, as confirmed by the letter from Sir Andrew Dilnot, Chair of the National Statistics Authority, quoted above. The issue is an important one because of the difference between the population structure of Scotland and that of the UK as a whole. The population of Scotland is projected to be roughly stationary, while the population of the UK as a whole is projected to grow. As a result, the proportion of elderly people in the Scottish population will grow more than the proportion in the UK as a whole. This means that the so-called dependency ratio, which is the ratio of the number of people over pension age in relation to the number of people of working age, will grow more swiftly in Scotland than in the rest of the UK. This in turn will create greater pressure in Scotland when compared to the UK as a whole, on pensions and on those other public services, such as health, which are driven by demand from the elderly.

57. The graph which the Scottish Government used to show future dependency ratios was based on a measure of dependency that included the under 16's, and therefore failed to show the extent of the problem that will be caused by Scotland's more rapidly ageing population. This omission has drawn criticism. One leading Scottish demographer was quoted in the press as saying “I don't know why these guys are doing this. It is just shocking.”⁶⁸ The phenomenon is illustrated in the following graph of Office of National Statistics data:

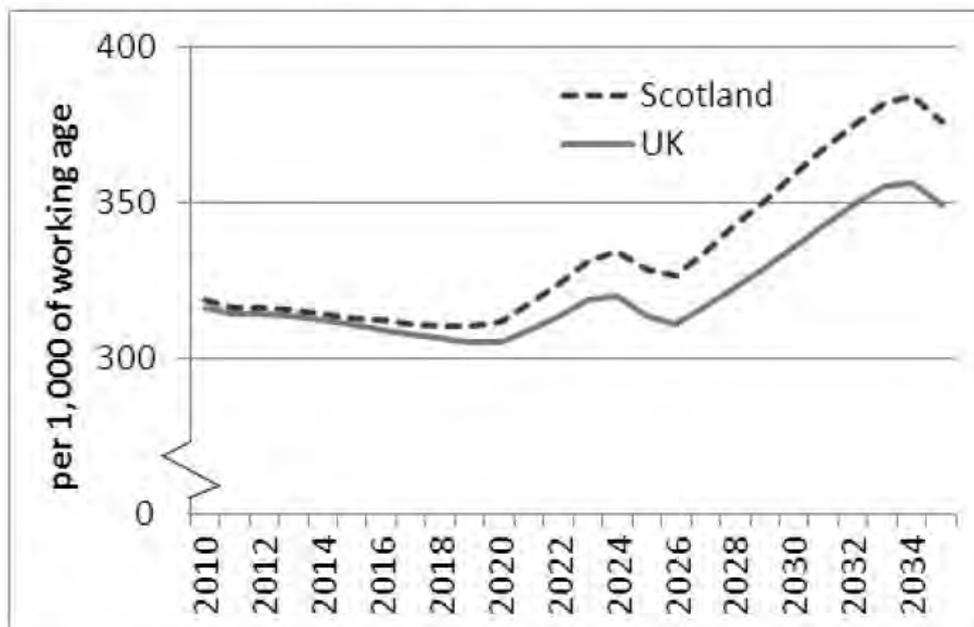
65 Scottish Government, *Pensions in an Independent Scotland*, Edinburgh, September 2013

66 E.g. *The Herald*, SNP: pensions will come early in indy Scotland, 21 September 2013; *The Guardian*, Scottish independence could mean earlier retirement, says Sturgeon, 23 September 2013.

67 Scottish Government, *Pensions in an Independent Scotland*, Edinburgh, September 2013, p. 107

68 *The Times* newspaper, Ministers 'misled' Scots over pensions, September 27 2013

Dependency Ratios, Pension Age, 2010 to 2035



Source: ONS, 2010-based Population Projections

58. Recent comment from the Chair of the National Statistics Authority shows that the Scottish Government has made a misleading use of data on pensions, to give the impression that pensions will be easily affordable in a separate Scotland. We believe it is grossly irresponsible to supply voters with a false prospectus in this way. Unless the Scottish Government's White Paper openly and honestly acknowledges the long-term demographic realities, and sets out the plans for dealing with them, it will not command any respect.

Promises, promises

59. As everyone acknowledges, the UK faces a challenging fiscal situation; we have seen above that the situation for Scotland will be even more challenging in the long run. Against this background the Scottish Government has set out ambitious spending priorities. Of course it is entitled to do this. But the list of spending commitments and promised tax reductions which have already been made is a long one. Many are attractive and desirable in themselves, but we are concerned they have not been properly costed. **The White Paper will not be credible as a plan for a separate Scotland if it simply makes a long list of uncostered promises and ignores their overall fiscal effect.**

60. The Scottish Government has already hinted at deferring the increase in the retirement age.⁶⁹ This is a remarkably expensive suggestion, and over 20 years could cost as much as

69 Scottish Government, Pensions in an Independent Scotland, Edinburgh, September 2013, p. 107

£6 billion.⁷⁰ It has promised to renationalise the Royal Mail;⁷¹ the cost of this is not possible at present to estimate reliably. It has promised to reinstate the historic Scottish regiments,⁷² to operate a new diesel submarine fleet,⁷³ and even hinted at continuing to run Typhoon jets.⁷⁴ At the same time, the Scottish Government has promised to reduce corporation tax by 3p in the pound,⁷⁵ a move which would reduce Scottish Government income by hundreds of millions of pounds. **If the White Paper contains the list of expensive spending promises which the Scottish Government has recently advanced, and does not explain exactly how they will be paid for, then it will not be a credible document on which the Scottish people can make an informed choice.**

70 HM Treasury estimate, quoted by Public Finance website, Scotland considers deferring pension-age rise, 23 September 2013

71 Scottish Government, Pensions in an Independent Scotland, Edinburgh, September 2013, p. 107

72 <http://www.snp.org/media-centre/news/2012/may/independence-opportunity-save-historic-units>

73 Website of Angus Robertson MP, "The Scottish National Party's policy on Foreign, Security and Defence, as updated at their Autumn Conference in 2012", available at www.angusrobertson.org

74 <http://www.pressandjournal.co.uk/Article.aspx/3412258>

75 <http://www.scotsman.com/news/politics/top-stories/scottish-independence-corporate-tax-slash-pledge-1-2939285>

5 Conclusion

61. We believe the choice facing the Scottish people in September 2014 could not be a more serious one. The White Paper is being produced with the authority of government. The Scottish people have a right to expect from it a full, open and honest assessment of the risks and opportunities of independence. The paper must acknowledge the uncertainties that inevitably exist about independence, and about a separate Scotland's relations with its neighbours. It must not give the misleading impression that all the benefits of union with the UK would continue after independence. Similarly, it must openly and honestly acknowledge the realities of Scotland's fiscal and economic position. The Committee believes that if it fails to do these things, it will fail the test of credibility; and the Scottish Government will be asking Scottish people to make a choice on the basis of a false prospectus.

Conclusions and recommendations

The Status of the White Paper

1. Although the Scottish Government now has the legal power to hold a referendum, by promoting such a significant constitutional change, it has now travelled outside its previous devolved legal remit. The Committee believes that, in promoting a “yes” vote, the Scottish Government must not use public resources in support of a party political project. Its official publication, the White Paper, must be above reproach. (Paragraph 9)
2. The content of the forthcoming White Paper will be of the greatest importance in allowing the people of Scotland to make an informed decision over Separation. It must meet the highest standards of accuracy in the use of data and statistics. (Paragraph 13)
3. The Committee believes the White Paper must make it clear that its plans and promises cannot be guaranteed if the “yes” campaign wins the referendum, and that it is a different and more uncertain document than the 1997 White Paper. (Paragraph 16)

Separation and the creation of an independent state

4. The Committee believes it is important, however, that, as a Government document, the White Paper does not ignore, or seeks to gloss over, the fact that risks and uncertainties exist. If it does, we think it will be rightly subject to criticism. (Paragraph 18)
5. In these circumstances, we as a Committee would expect to play a major role in the negotiating process. (Paragraph 19)
6. We will therefore expect that the White Paper should set out a realistic process and timetable for negotiations, and sensible contingency plans for dealing with the issues which may arise should they be extended, in particular what will happen if agreement has not been reached by 1 April 2016, the Scottish Government’s pre-determined date for separation to take effect. If it fails to do so, questions will be asked as to how serious and credible the proposals are. (Paragraph 21)
7. The Committee believes the record shows that the Scottish Government has misled MSPs, and voters, on the topic of EU membership. (Paragraph 24)
8. At the very least, the Committee believes the White Paper must set out the issues which the Scottish Government expects to be dealt with in any EU Membership negotiations, what objectives it would hope to achieve, and what alternatives there are if it is unable to achieve those objectives by 1 April 2016. (Paragraph 29)
9. We believe it is incumbent on the Scottish Government to state with the greatest possible clarity in the White Paper what its intentions are with regard to the currency to be used in an independent Scotland. No economic question is more important for

a new country. Of course the Scottish Government is entitled to repeat that it aspires to have a monetary union with the rest of the UK. If so, we believe it must say what conditions it would be prepared to accept in order to secure such a union. We also believe it must set out clearly for the Scottish people what the alternatives are (whether unilateral use of sterling, the adoption of the euro, or the creation of a new separate Scottish currency), and which of these options it would prefer, and to set out openly and honestly the implications of each approach. If the White Paper fails to do this, it will rightly be subject to criticism as having no coherent economic plan for a separate Scotland. (Paragraph 38)

10. Unless the White Paper acknowledges and addresses the very significant practical issues that would arise after separation in relation to pensions, and the similar issues relating to benefits, tax collection and other public services presently delivered on a UK basis, we believe it will be subject to serious challenge as to its credibility. (Paragraph 40)
11. There is no reason to imagine that UK Government decisions after separation would lead to the watered-down version of independence, with shared administration and little visible change, that the Committee believes the Scottish Government is offering to voters. (Paragraph 42)

Scotland after Separation

12. The Committee believes it will be important for the Scottish Government White Paper to set out in measured terms data on the long-term fiscal sustainability of an independent Scotland, taking account of the uncertainties in revenue. In particular, we believe the White Paper must acknowledge the full range of independent forecasts of oil revenues. Similarly, these long-term projections should include projections of demand for public expenditure, notably those driven by demographic changes such as those affecting pensions, which we discuss below. If the White Paper relies on optimistic short-term arithmetic it will not be a credible basis for an informed public choice. (Paragraph 53)
13. Recent comment from the Chair of the National Statistics Authority shows that the Scottish Government has made a misleading use of data on pensions, to give the impression that pensions will be easily affordable in a separate Scotland. We believe it is grossly irresponsible to supply voters with a false prospectus in this way. Unless the Scottish Government's White Paper openly and honestly acknowledges the long-term demographic realities, and sets out the plans for dealing with them, it will not command any respect. (Paragraph 58)
14. The White Paper will not be credible as a plan for a separate Scotland if it simply makes a long list of uncosted promises and ignores their overall fiscal effect. (Paragraph 59)
15. If the White Paper contains the list of expensive spending promises which the Scottish Government has recently advanced, and does not explain exactly how they will be paid for, then it will not be a credible document on which the Scottish people can make an informed choice. (Paragraph 60)

Conclusion

16. We believe the choice facing the Scottish people in September 2014 could not be a more serious one. The White Paper is being produced with the authority of government. The Scottish people have a right to expect from it a full, open and honest assessment of the risks and opportunities of independence. The paper must acknowledge the uncertainties that inevitably exist about independence, and about a separate Scotland's relations with its neighbours. It must not give the misleading impression that all the benefits of union with the UK would continue after independence. Similarly, it must openly and honestly acknowledge the realities of Scotland's fiscal and economic position. The Committee believes that if it fails to do these things, it will fail the test of credibility; and the Scottish Government will be asking Scottish people to make a choice on the basis of a false prospectus. (Paragraph 61)

Formal Minutes

Tuesday 12 November 2013

Members present:

Mr Ian Davidson, in the Chair

Graeme Morrice
Simon Reeve

Mr Alan Reid
Lindsay Roy

Draft Report (*The Referendum on Separation for Scotland: The Need for Truth*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 61 read and agreed to.

Summary agreed to.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 19 November at 2.00 pm]

List of Reports from the Committee during the current Parliament

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

Session 2010–12

| | | |
|----------------|--|------------------|
| First Report | Postal Services in Scotland | HC 669 (HC 884) |
| Second Report | Video Games Industry in Scotland | HC 500 (Cm 8067) |
| Third Report | UK Border Agency and Glasgow City Council | HC 733 |
| Fourth Report | The Scotland Bill | HC 775 |
| Fifth Report | Student Immigration System in Scotland | HC 912 (Cm 8192) |
| Sixth Report | The Referendum on Separation for Scotland: Unanswered Questions | HC 1806 |
| Seventh Report | The Crown Estate in Scotland | HC 1117 |
| Eighth Report | The Referendum on Separation for Scotland: Do you agree this is a biased question? | HC 1942 |

Session 2012–13

| | | |
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| First Report | A Robust Grid for 21 st Century Scotland | HC 499 |
| Second Report | The Referendum on Separation for Scotland: making the process legal | HC 542 |
| Third Report | The Referendum on Separation for Scotland: a multi-option question? | HC 543 |
| Fourth Report | The Referendum on Separation for Scotland: Terminating Trident—Days or Decades? | HC 676 (HC 861) |
| Fifth Report | The Future of HM Coastguard in Scotland | HC 583 |
| Sixth Report | The Referendum on Separation for Scotland: The proposed section 30 Order—Can a player also be the referee? | HC 863 |
| Seventh Report | The Referendum on Separation for Scotland: Separation shuts shipyards | HC 892 |
| Eighth Report | The Referendum on Separation for Scotland: How would Separation affect jobs in the Scottish Defence Industry? | HC 957 (HC 257) |

Session 2013–14

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| First Report | Remploy Marine Fife | HC 454 |
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