
ECONOMIC *Perspective*

MONITORING THE FINANCIAL ASPECTS OF THE DEVOLUTION SETTLEMENT:

ISSUES AND DATA REQUIREMENTS

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INTRODUCTION

The subject of this paper is the requirement to monitor the financial aspects of the Scottish devolution settlement. Financial aspects will, almost inevitably, underpin the success or failure of devolution. The precise issues involved, and the question of the data requirements for monitoring these issues, are topics which so far have attracted relatively little attention.

The Scottish Parliament needs to understand fully how the major component of the Scottish Budget, the Departmental Expenditure Limit (DEL), is derived by the ongoing application of the Barnett formula. We argue in this paper that the Scottish Parliament will also need to be able to:

- (a) check whether certain key implicit assumptions underlying the devolution settlement continue to hold through time
- (b) ensure that there is proper articulation between devolved and non-devolved services
- (c) ensure that Scotland is getting adequate "value for money" from the various categories of non-devolved expenditure, and also from European funding.

For this, extensive data will be needed - relatively little of which is currently readily available. The paper examines these data requirements.

The primary concern of the paper is with the issues involved in monitoring the current devolution settlement: that is, with those issues which will have to be tackled if devolution as it is currently structured is to be made to work satisfactorily. There are, in addition, a number of wider issues which will inevitably become the focus of intense

debate in the medium term, if not sooner, and on which improved data will be required.

These issues include the assessment of relative spending need between Scotland and England, and estimation of Scotland's macro-economic aggregates.

The final section of the paper considers these wider issues.

MONITORING THE OPERATION OF THE SCOTTISH BUDGET

The Scottish Budget represents the resources directly within the control of the Scottish Parliament, together with certain resources administered by the Scottish Executive, as in the case of CAP. The Budget for 1998-99 is shown below:

<i>Total Budget 1998-99</i>	1998-99 Estimated Outturn <i>£million cash</i>
Departmental Expenditure Limit	13,282
Annually Managed Expenditure	
Common Agricultural Policy	345
NHS and teachers' pensions	348
Housing Support Grant	13
Other	
New Deal for Schools	27
Non-Domestic Rates	1,395
Total Budget	15,410

Source: *Serving Scotland's Needs*, 1999

The DEL is that part of the Budget which is determined on a three year planning horizon. Annually Managed Expenditure represents items of spending that, to quote from *Serving Scotland's Needs* "cannot be reasonably subject to firm three year limits or that should have special control regimes". AME items are reviewed as part of the annual budget process.

The "Other" category includes miscellaneous sources of finance, which fall outwith the mechanisms determining DEL and AME. In particular, the New Deal for Schools is financed by the Windfall Tax. As regards Non Domestic Rates, the rate poundage is within the direct control of the Scottish Parliament, but the overall yield of the tax depends not just on the poundage but on the tax base. Also included in the "Other" category, would

be revenue generated from the income tax varying powers of the Scottish Parliament if it were to choose to exercise these powers.

Changes to the DEL are related to changes in individual English, (or England and Wales) expenditure programmes through a mechanism called the Barnett formula which works as follows. If there is a per capita money change on spending on an English programme, assuming that this service relates to a programme which is devolved in Scotland, then the Scottish DEL is adjusted by the same amount per capita. If spending on a given service goes up by £2 per capita in England, then this results in a £2 per head adjustment to the Scottish DEL. The final change to the Scottish DEL is the sum of all such changes generated by relevant English programmes. What results from Barnett is an overall change to the DEL: it is up to the Scottish Executive to decide how the DEL should be allocated between programmes in Scotland. Note also that, since current levels of public expenditure per head are higher in Scotland than in England, an equal per capita increase in money terms in both countries means that the percentage increase in Scotland is lower. If public expenditure is rising overall in money terms, then the Barnett formula will force per capita spending levels in Scotland to converge eventually with those in England. As can be seen from the above table, Barnett governs 86% of expenditure in the Scottish Budget.

The following three points are relevant:

- (a) The Scottish Budget represents the primary source of finance for devolved services but not the totality of expenditure on these services. In particular, as regards local authority services, the Scottish Budget funds grants from central government to local authorities: local authorities also finance some of their own expenditure through council tax, to the order of about £1 billion per annum. So, as regards the different devolved services, some (like health), are funded directly and almost entirely from the Scottish Budget: but others, like school education, are funded partly from the grants paid to local authorities out of the Scottish budget and partly by council tax.
- (b) As far as the Scottish Parliament is concerned, the bulk of the resources within the Scottish Budget, (the 91% of the budget represented by DEL, AME, and New Deal), are externally determined, through the operation of the budgetary process in Whitehall. The only way in which the Scottish Parliament can

influence the size of the Scottish budget is through decisions on non-domestic rates, or if it were to use its income tax varying power.

- (c) The expenditure programmes to which Barnett applies are net of fees and charges, that is, net of any income raised by charges for public services.

Against this background, what are the key issues for monitoring the Scottish Budget and the resulting information requirements?

The first issue concerns the operation of the Barnett formula itself. Full information needs to be published, giving the detail of the calculations showing how the Barnett principle translates into the actual cash change in the Scottish DEL each year.

Possibly the best justification for publishing such full detail is to consider the limited information on the operation of Barnett which has been available to date: and the consequences of this lack of information. The Barnett formula was introduced in 1979, and the basic principles of Barnett have remained unchanged ever since. However, the required information to enable the Barnett calculations to be replicated each year was never published: it is also now clear, as noted in the Treasury Supplementary Memorandum to the Treasury Committee, December 1997, that the application of the Barnett principle was fairly loose, at least until the early 1990s. The result was that, far from converging with English per capita spending levels, Scotland's relatively favourable spending levels were maintained, or even improved over this period. This led to the development of a wide spread myth, current even to this day, that Barnett is "good" because it protects Scotland's favourable spending position. Such myths are the direct result of lack of information: the best way to dispel myths, and to prevent new, equally damaging myths arising, is to ensure that the full detail of the Barnett calculations is published each year.

Specifically, data are required on the planned increase in expenditure in England, or England and Wales, for each of the different categories which feed into the Barnett formula. This should be presented not just in terms of the change in the planned spend for each year, but in terms of the "old plan" and "new plan" for each year, so that change can be determined in absolute and percentage terms. At present, while the government has published details of the percentages of each of the detailed English programmes to which Barnett will apply, it does not publish a sister volume of the relevant expenditure plans in the same detail, so

it is not possible to recreate the Barnett calculations from publicly available information. It will also be necessary to have information on the reasons for the planned increases. This is not to imply that the Scottish Executive will either wish, or indeed be able, to shadow English spending decisions: but, decisions taken in England, for example major pay awards, are likely to constrain the freedom of action of the Scottish Executive, so it is important that the Scottish Executive is aware of the detail of such constraints.

We now turn to the second monitoring issue. Almost 91% of the resources in the Scottish Budget are externally determined by the DEL and AME. There are, however, significant other resources inside and outside the budget, which also contribute to service provision. These include non-domestic rates, (which is within the budget), council tax, and income from fees and charges. Both of the latter elements fall outside the budget: council tax because it contributes to local authorities' self-financed expenditure, and fees and charges because the expenditure aggregates on which Barnett is based are calculated net of fees and charges. As a shorthand we describe these three elements as "own resources" elements because the amount of funding provided by the three mechanisms is, in part at least, dependent on decisions on poundages or charges which are taken within Scotland.

At first sight, it might appear that, since these "own resources" elements are dependent on local decisions, there is little requirement to monitor these elements in detail: and, in particular, little requirement for comparative monitoring information with England. There are two reasons why this is not the case: -

- (a) the size of the "own resources" elements does not depend simply on local decisions about poundages or charges: it also depends on the size of the relative tax bases for council tax and non-domestic rates, and on the number of people using the services for which there are fees and charges.
- (b) if the current devolution financial settlement is regarded as "fair", then this must involve some implicit judgement that the current relative availability of "own resources" in Scotland and England is fair also. Radical changes in the relative availability of "own resources" between the two countries would then call into question the continuing fairness of the overall settlement.

To give an example, suppose that the tax base for council tax was growing relatively faster in England than in Scotland. In other words, suppose that the tax base per head, in terms of band E equivalents, was growing faster in England: then for a given level of council tax, through time England would be able to provide either a higher level of local authority services for the same level of central government grants to local authorities, or the same level of services with a reduced government grant. In either case, the relative level of public expenditure per head in Scotland would change, (or Scotland would have to raise council tax to compensate), over and above the planned change in relative public expenditure resulting from Barnett. Clearly, if such a process were at work, it would be important to be able to detect it in good time, so that an informed judgement could be made, between Westminster and Holyrood, as to whether any compensating adjustment to the Barnett formula was required.

This is not to argue that compensating adjustments to the funding package should be made automatically in the light of changes to the "own resources" bases. It could well be the case, for example, that it was desirable to maintain an incentive element, so that either country could be rewarded for taking successful steps to grow its "own resources" - or penalised for adverse policies that harm resources. The important point, however, is that such decisions should be confronted explicitly and in good time - rather than be taken by default. This can only be done if comparative monitoring information on the "own resources" elements is available for both Scotland and England.

For council tax and non-domestic rates, the monitoring information which is required are data on the size of the tax bases, and the poundage or equivalent for both Scotland and England. For fees and charges, what is required is information on the revenue raised by fees and charges for each of the major services, for example Education, Leisure and Recreation, etc., in Scotland and England. In principle, it would also be desirable to have information available on the average levels of fees and charges for the major services in the two countries. For example, if total revenue from fees and charges rises in England due to a doubling of fees and charges then there is little argument for adjusting the funding formula to compensate Scotland: if revenue from fees and charges in England has risen due to a rise in the numbers using services then there is possibly a case for adjusting the funding mechanism. In practice this data will be difficult to gather in readily interpretable form and sample survey work is likely to be a route forward.

We have looked at the requirement to monitor the different funding resources for the provision of public services. In fact, similar principles also arise if there were to be a marked shift in the balance of provision between public and private sector in either Scotland or England. For example, if the proportion of education in England provided by the private sector were to increase for whatever reason, with a corresponding reduction in the public expenditure programme then the straight application of the Barnett formula would result in a lower Scottish DEL. This would require either Scotland to follow a similar route as regards the provision of education, or to seek cuts in other public services. Rather than be imposed automatically, the case for adjustment in the funding formula should be explicitly addressed in such circumstances. There is also a need, therefore, to monitor trends in the split of service provision between public and private sectors.

This latter point is an example of the type of problem which could arise if aspirations for the provision of public services were to diverge radically between Scotland and England. The paradox of devolution is that it provides the political means for such divergent aspirations to be satisfied, without providing the financial means. Yet it is almost inconceivable that substantially different aspirations could be accommodated without there being financial implications. Further, differences can occur due to changed aspirations in either country: aspirations in England may as readily drift away from today's status quo as those in Scotland. Were the change to occur in England, there is then a real issue as to whether Scotland should be dragged along in the resulting financial implications simply by the operation of a mathematical formula.

The overall thrust of the arguments in this section is that the operation of the funding package for the Scottish Parliament needs to be monitored in a holistic way. There are a number of assumptions which must hold through time if the settlement is to be regarded as fair. There is no reason why these implicit assumptions should continue to hold in the longer term. The important point is that relevant information should be available so that such changes can be detected in good time, and so that the question of whether to make an adjustment to the devolution funding package can be explicitly addressed.

MONITORING EXPENDITURE OUTSIDE THE SCOTTISH BUDGET

In its report, "Government Expenditure and Revenue in Scotland", (GERS), November 1998, the government attributed around £32 billion of general government expenditure in 1996-97 as

being spent on Scotland's behalf. Of this total, around £15 billion would have fallen within the responsibility of the Scottish Parliament. Of the remainder, around £10 billion was identified as being on services incurred directly on Scotland's behalf. This expenditure is known as "Identifiable Other". As detailed in the Government's "Public Expenditure Statistical Analysis", in 1997-98, the principal categories were:

Social Security	£9,049 m
Trade, Industry, Energy and Employment	£ 280 m
Roads and Transport	£ 177 m
Agriculture, Fisheries, Food and Forestry	£ 99 m

Public expenditure is also incurred on services such as Defence and overseas representation which are for the benefit of the UK as a whole and cannot be attributed to its several parts. This is known as "unidentifiable expenditure": an amount of £3.1 billion was apportioned to Scotland in the GERS exercise, largely on the basis of Scotland's population share. The principal categories were:

Defence	£1,850 m
International Devt & other	
International Services	£ 290 m
Miscellaneous*	£ 510 m

*this includes a pro rata share of the UK net contribution to the European Communities.

Note that the amount outwith the control of the Scottish Parliament is greater than that within the control of the Scottish Parliament.

Let us look first of all at the information requirements as regards identifiable other expenditure. The prime requirement is for information which will provide the basis for efficient articulation between devolved and non-devolved services. What do we mean by articulation and why is it important? To take an example, consider the interactions between housing, which is a devolved service, and social security, which is non-devolved. Despite this split of responsibility, housing policy and social security policy are intimately linked. Among the clients of both services are the same vulnerable social groups, of the old, the disabled, the poor and the unemployed. Moreover, policy changes in the two areas interact. Changes in the regulations on housing benefit can have a major effect on the whole structure of housing: conversely, a change in policy on housing rents can have a significant direct impact on the social security budget. Given these interactions, it will be vital for the Scottish Executive, when developing its policy on housing, to seek to ensure that Westminster's policy on

social security is moving in a consistent direction, and vice versa.

Similar considerations apply to the links between education (devolved), enterprise (part devolved, part non-devolved), and social security: between the devolved and non-devolved parts of transport: etc.

Good policy articulation depends, in the last resort, on Westminster and Holyrood working effectively at both political and official level: and how best to achieve this goes beyond the scope of this paper. However, the starting point for articulation is the availability of the relevant data; so, what data are required?

The first requirement is to know what is spent by the different agencies on the different functions, but information needs go well beyond this. The key to articulation is knowing the characteristics of the client groups for the different services, the extent of overlap, and critically, their geographical location. In an area like Glasgow, it is known that 68% of local authority tenants receive housing benefit and council tax benefit. This bald statistic, however, does not tell us why tenants of local authority housing in Glasgow are so comparatively disadvantaged. To understand this more fully, we need to know more about the characteristics of the individuals concerned. How many of them are unemployed, low income earners, chronically sick, old, etc. Only with detailed information like this is it possible to identify the problem and then to start thinking of the development of an integrated policy solution.

The key to successful policy articulation, therefore, is the kind of detailed individual level data which can be most readily obtained from a major social survey exercise, such as, for example, the new Scottish Household Survey currently being developed.

Another vitally important area of identifiable other expenditure relates to economic development. Currently, under reserved powers, the government distributes regional aid within the UK adhering to criteria it itself has set down subject to EU rules; for example, those areas accorded Assisted Area status are determined by criteria which apply at UK level and which are set by Westminster within the framework of rules determined by the EU. The importance to an area of having Assisted Area status goes far beyond merely having access to regional selective assistance, but also opens the door to a variety of means of UK and local assistance allowed under EU rules and not available to other areas.

The EU rules for setting the criteria state that the eligibility criteria must be related to data which are available for the whole country, that is, the UK. In practice, this puts a severe limitation on the indicators which can actually be used. One of the few indicators readily available at local level is unemployment. This may not be the relevant measure for Scotland. The composition of industry in Scotland, and our exposure to globalisation and technological change, may well make us vulnerable in a dynamic sense, and this could be better shown by indicators other than unemployment.

There are two implications:

First, there is a requirement for information other than unemployment data at a fairly detailed level within Scotland which would enable the Scottish Parliament to assess whether there are arguments such as economic fragility which would be more relevant in determining the distribution of regional assistance in Scotland than the traditional unemployment measure. If this is the case, and if the Scottish Parliament can successfully convince Westminster to change the basis upon which RSA is determined then the second implication is that the required information would need to be collected for the UK as a whole.

Now let us turn to that category of expenditure which is referred to as "Unidentified", that is, expenditure which is incurred for the benefit of the UK as a whole, such as Defence and Overseas Representation, and of which a share (basically a population share) is attributed to Scotland in the GERS exercise. The rationale for this particular part of the GERS exercise is that the population of the UK as a whole benefits equally from the end product of the relevant services: and that it is therefore appropriate to allocate the cost of these services to the constituent parts of the UK on a population basis. This is one way of looking at "who benefits". But there are also other ways: we would argue that an adequate treatment would involve looking at the different ways in which different parts of the UK actually do benefit, and then forming an overall balanced judgement. In particular, the other major way in which an area may benefit from unidentified public expenditure is from the provision of employment or economic multiplier effects which will arise if that expenditure is actually incurred within the relevant area. In looking at defence expenditure the government attempted to make some assessment of the incidence of defence employment / expenditure in different areas and came to the conclusion that, on the basis of the available evidence, the incidence of defence expenditure, and therefore the relevant multiplier effects in the constituent countries of the UK, was unlikely to differ significantly from the relevant population shares.

There are two respects in which this treatment in GERS is inadequate: first, it was based on very limited information and did not take adequate account, for example, of differences in grade of employee and income distribution between areas. Secondly, what is important is not just the incidence of expenditure but the type of expenditure, since a given amount of expenditure in the form of high tech defence procurement is likely to have a much more profound and beneficial effect on the economy of a given area than the same amount of expenditure paid out on administration or basic procurement.

What we suggest here is that the Scottish Parliament has a legitimate interest in knowing not just where non-identifiable expenditure is actually incurred but whether this expenditure is incurred in ways which generate high value spin offs for Scotland. For example, is defence expenditure in Scotland resulting in dynamic opportunities for the Scottish economy in growth industries? Is expenditure on foreign representation generating appropriate trade opportunities for Scotland which a Scottish Parliament would regard as value for money?

If the answer to either of these two questions is no, then the Scottish Parliament would have a legitimate interest to lobby Westminster to do better on Scotland's behalf. But the first requirement is that the Scottish Parliament should have available to it the relevant information to form the basis for this type of judgement.

EUROPEAN FUNDING

It may seem surprising that we have selected European funding issues as a topic which requires special attention. However, this topic is not only important for Scotland, but is cloaked in obscurity. As we shall show, special attention to improving information in this area should be a priority for the Scottish Parliament.

We begin by describing how the financial arrangements with Europe work at the UK level.

As a member state, the UK makes a gross contribution to Europe. This was £8,047 million in 1998-99, (source: Report of Chancellor of Exchequer's Departments), after allowing for the UK rebate as negotiated by Mrs. Thatcher. In turn, the UK benefited by receiving a total of £4,043 million in public sector receipts from Europe. These took a number of forms, with the major categories being: the Common Agricultural Policy, £3,026 million; European Social Fund and European Regional Development Fund, £963 million.

Note that the amount of funding received under these programmes and its distribution within the UK are not in the UK government's gift. They are determined by criteria agreed with Europe, and in the case of structural funds, by the quality of the projects coming forward.

Now let us consider these financial arrangements as they impact on Scotland. On the contributions side, since it is the UK that is the member of the European Union, the separate countries within the UK have no separately identified individual gross contributions. Instead, in working out Scotland's fiscal balance in the GERS exercise, the government has implicitly assumed that Scotland makes a net contribution to Europe, equal to its GDP share of the UK net contribution.

As regards Scotland's receipts of European funding, these can be estimated as follows:

- (a) Common Agricultural Expenditure within AME. This amounted to £318m in 1999-2000, (source: Scotland's Supply Estimates, 1999-2000): Funding received via the Intervention Board for on farm payment schemes in Scotland.
- (b) Other European Expenditure within the Scottish Budget. This amounted to £150m in 1999-2000, (source: as above). The major components within this total are £91m in grants to local authorities and other bodies under the European Regional Development Fund and £40m in grants to local authorities and other bodies under the European Social Fund. The balance is mainly made up of expenditure on a range of agriculture and fisheries structural measures.
- (c) European Funded Expenditure not in the Scottish Budget. This comes under a variety of headings. First of all, there are certain elements of expenditure under the "identifiable other" category which are funded by Europe. The major item here is European funded Regional Selective Assistance which amounted to £72m in 1996-97. (Source: Scottish Office). There may be other items of European funded expenditure as well - for example relating to projects funded through the Department of Transport, but the relevant figures do not appear to be published. Secondly, certain European funded expenditure is scored in the government's analysis of public expenditure as "unidentified": and Scotland should therefore be attributed a GDP related share of such expenditure. Included in this category, for example, is

certain European funded BSE related expenditure: this amounted to £591m for the UK as a whole in 1998-99: (source: MAFF Departmental Report, Annex 3). Accordingly, something over £50 million of EU funded expenditure should be attributed to Scotland from this source. There may also be other items of "unidentified" expenditure which are EU funded and for which Scotland should be allocated a share: the figures do not appear to be published to enable these elements to be distinguished.

Overall, therefore, the total of EU funding is of the order of £600 million, though for reasons as explained above, this figure is an estimated figure and may in fact be an underestimate.

In the light of the above description, the key issues for the Scottish Parliament are as follows:

1. *What is the total of European funding which should be attributable to Scotland?* The annual territorial analyses of UK public expenditure should be extended to distinguish the European funded elements within each of the categories of expenditure. This is a particularly important point since, as explained below, the amount of EU funding attributable to Scotland has a direct bearing on Scotland's estimated fiscal deficit.

2. *Does the non-CAP European funding within the Scottish Budget actually represent additional funding for Scotland?*

At first sight, the answer to this question appears self evident: of course Scotland is better off because of the non-CAP European funding it receives within the Scottish budget. However, careful examination of the published Scottish estimates suggests that the answer to this question is by no means so clear cut. On the one hand, Note 2.4.2 of Scotland's Supply Estimates for 1999-2000 states that

"There is provision in the Estimates which is not included in the total budget for Scotland for control purposes. For instance, the Estimates include receipts from the European Communities, expenditure on NHS and teachers' superannuation and receipts from the National Insurance Fund towards the costs of the NHS in Scotland."

A reasonable interpretation of this note would be that receipts from the European Communities are not included in the total Scottish budget for control purposes, and hence that European receipts in the Scottish budget would be over and above the DEL element of the budget, as determined by the Barnett

formula. However, comparison of the DEL figures in Chart 2.2 and Table 2.1 of the Estimates volume indicates that £150 million of non-CAP European receipts is subtracted from the DEL figure as determined by Barnett in working out the financial provision in the estimates. This suggests that this element of European funding is not actually additional to what would have been provided anyway by way of Barnett unless the original DEL figures had been adjusted upwards at some point in the past by the anticipated future stream of European receipts in Scotland. It does not appear to be possible to establish from published sources whether such an adjustment or adjustments were ever made to the Scottish DEL. The government should be pressed for a clear and unambiguous answer to this point. But if the answer is that no historical adjustment was made to the DEL, then the implication is that Scotland has failed to benefit from elements of EU funding which it should have received: this would be in clear breach of the stated EU principle that such funding should be additional.

3. *What is the impact of European funding on Scotland's fiscal balance?*

In working out Scotland's fiscal balance in the GERS exercise, the government has implicitly assumed that Scotland makes a net contribution to Europe, equal to its population share of the UK net contribution. For the reasons which are discussed in detail in Cuthbert and Cuthbert [1998], this is an untenable position which has the consequences that (a) Scotland's assessed fiscal deficit is overstated and (b) that Scotland's deficit increases the more European funding Scotland attracts.

It will be an important issue for the Scottish Parliament to ensure that a more satisfactory methodology is adopted in any future GERS type exercise. The appropriate approach would be to include, on the expenditure side of the account, Scotland's population share of the gross UK contribution: but also to credit, as negative expenditure, the full amount of European receipts attributable to Scotland. As already noted, this means that the correct estimation of EU funding attributable to Scotland has a direct bearing on Scotland's estimated fiscal deficit.

WIDER ISSUES

The primary concern of this paper is with the immediate monitoring issues posed by the devolution settlement. There are, in addition, two wider issues which will inevitably become the focus of considerable attention in the medium term.

The first issue is the topic of relative spending needs between Scotland and England. The principle which was enunciated in the Treasury led study on relative spending needs published at the time of the original devolution proposals in 1979 was as follows:

"It is a long established principle that all areas of the United Kingdom are entitled to broadly the same level of public services, and that the expenditure on them should be allocated according to their relative needs."

Reference, HM Treasury, 1979.

The question of what level of expenditure is "needed" in Scotland relative to England, is not explicitly addressed in today's devolution settlement. A reasonable interpretation of the decision to use the Barnett formula as the basis for determining changes in the Scottish DEL, (with the consequent implication of likely long term convergence in per capita spending levels), would be that the government has an implicit view that the long term level of per capita need in Scotland is the same as that in England. However, if this were the government's position, it would be one that is difficult to defend, particularly in the light of the above Treasury study which concluded that a level of per capita spending in Scotland 16% higher than that in England might be needed. Of course, that study is now very out of date, and in any event was based on a fairly crude methodology. Nevertheless, without undertaking a substantive new study, it would be difficult for the government to seriously advance the position that they now had any better specific estimate of relative levels of need.

A more reasonable interpretation of the government's position might be that they take the view that the current per capita spending levels in Scotland are somewhat above the level implied by relative need, (hence the decision to impose the convergence implied by Barnett), but that it is not possible to say by how much. However, this position is not tenable in the longer term. At some point, the squeeze implied by Barnett will lead relative spending in Scotland to fall below some general perception of what is needed. This will happen in particular if Barnett implies the necessity for real cuts in public expenditure in Scotland, which could easily happen either given a combination of high inflation and low real growth in public expenditure at UK level, or if resources were to be pre-empted by national pay awards to major groups. At that point, the issue of needs will emerge as a matter of public controversy and it will be necessary for the government to attempt some new needs study, whose findings would have to command widespread respect.

The second issue concerns the need to improve data on the key macro economic aggregates for Scotland. The success of the Scottish economy is such an important issue that good economic data will be needed in order to maximise the impact of the economic measures which the Scottish Executive can take. In particular, what is required includes an appreciation of the key engines in Scottish economic performance, how they are influenced by economic events, and therefore what strategies ought best to be adopted by the Scottish Executive to assist long term economic performance.

Moreover, the inherent instability of the devolution arrangements will itself pose a requirement for better macro-economic data. This is so, because as we have already argued, the question of relative spending need will inevitably become a live issue, and the Scottish Parliament and the Westminster government will then become involved in what will essentially become a negotiation about reopening the devolution financial settlement. It seems inescapable that this negotiation will involve claim and counter claim about the extent to which Scotland pays its way as regards its public sector finances. In other words, the issue of Scotland's fiscal balance will again become of key importance.

As noted earlier, successive governments have found it appropriate to publish estimates of Scotland's fiscal balance in the annual GERS exercise: however, the methodology employed, and the quality of the data sources, are far from satisfactory - (Cuthbert and Cuthbert, 1998). It will be important for all concerned, but particularly for the Scottish Executive, which stands to be disadvantaged if the current unsatisfactory GERS methodology is not improved, that better estimates of Scotland's fiscal balance are available.

CONCLUSION

There are a number of important issues, affecting many aspects of the devolution settlement, which will require to be actively monitored and on which it will be necessary for appropriate data sources to be developed. If this monitoring is not undertaken then the consequences could be severe, both for the success of devolution itself and the long term welfare of Scotland.

The specific needs identified in this paper are as follows:

- full information required to monitor the operation of the Barnett formula;

- the information required to monitor the implicit assumptions on “own resources” underlying the devolution settlement;
- the information required to ensure proper articulation of devolved and non-devolved services;
- indicators of the value for money yielded by unidentified public expenditure
- better information on various aspects of European funding
- as regards the wider issues discussed in the final section of the paper, it will be required to develop an appropriate methodology on needs assessment, and improved macro economic data.

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