

THE WHITE PAPER PROJECT

A business plan for a new nation

version 1.0

COMMON WEAL

the **WHITE PAPER** *project*

VERSION 1.0

The Purpose of this draft White Paper

The White Paper Project is an attempt by Common Weal to explore the methodology, content and structure of a revised White Paper for Scottish independence.

This project is iterative – it has no single author or group of authors but is an attempt to engage the widest possible range of expertise in Scotland in exploring how to establish a new independent nation state.

This is its first iteration and it is most certainly not a complete White Paper. There are inevitably areas which will need to be expanded and built upon and estimates of costs which will be updated as time goes on and new information becomes available. The aim is to begin discussion, to create a framework for thinking about what should be in a revised White Paper and to encourage people with individual experience to get in contact and contribute (please email us at whitepaper@common.scot).

There will then be many iterations of this work, each one moving closer to a final position. Please bear with us as we gradually fill in the gaps, improve the numbers and answer more of the questions – or get involved yourself.

Structure, Content and Aims

The aim of this project is much tighter and more specifically focussed in its aim than Scotland's Future, the White Paper published by the Scottish Government prior to the last independence referendum. It is not an attempt to discuss or propose a list of things that Scotland can do once it is an independent country. Rather this project is limited only to exploring how to develop and build the institutions, functions and infrastructure which Scotland would require to be a successful independent nation but does not currently have in place. So entire subject areas such as health, education, transport and so on are not considered here (other than if there are specific aspects of that function which are not currently devolved to Scotland and might need additional infrastructure).

The aim is to produce a 'consolidated business plan for the establishment of a new nation state' which would get Scotland to 'day one' of independence with the ability to collect taxes, defend its borders, negotiate with international partners, secure its energy supply and so on. How those functions would then be used (what tax rate to set, what military stance to take, what negotiations to engage in, how to manage the energy mix) are decisions for a democratically elected government once Scotland is independent.

(Some of the figures built into the proposed budget do, however, base themselves on assumptions of the possible outcome of negotiations and possibilities for future policy. We will welcome contributions relating to both currently devolved and new powers that come with independence which could help provide costed policy changes that could be open to an independent elected Scottish Government.)

An independent Scotland should aim to establish itself as a 21st century nation. It is an excellent opportunity to design the country not as an adaptation of the 19th century nation but as one which is rooted in modernity. However, a balance must also be struck with maintaining a degree of continuity and ensuring that, as far as possible, institutions are designed such that they are 'policy neutral' – capable of being effectively used by a future government of whatever political persuasion.

For each institution, process or piece of infrastructure to be created, the White Paper should be explicit about the following:

- The purpose and aim of the institution
- The broad outline design of the institution
- The mechanism by which the detailed design will be created
- The means through which the design will be implemented
- The cost of development and implementation
- Consideration of any international legal issues and human rights compliance etc.

Next Steps

This version 1.0 of the work is an open call for people to engage and participate. If you have expertise in any of these areas or if you wish to express an opinion or if you think there are issues missing or if you think that certain approaches are unwise for any reason, we want to hear from you. We will regularly publish updated versions of this paper as each contribution is assessed and integrated into this work.

Whatever your skill set or experience, send us your thoughts. And if you have specific skills to offer, let us know. Contact us at:

whitepaper@common.scot

Acknowledgements

Many of the ideas in this draft White Paper have been developed over a number of years, in which time Common Weal has sought advice and expertise from a great many people, too numerous to name here - we thank them all.

White Paper version 1.0 has been based on a series of reports since July 2016, when the White Paper Project was launched. These are:

Austin, B, Henderson, P (2017tbc). 'An independent Scotland's Customs and Borders: Principles and Approaches'.

Dalzell, C (2016). 'Scottish Currency Options Post-Brexit'.
<http://allofusfirst.org/tasks/render/file/?fileID=5DE9EBD7-0CBD-6002-A680D-9035064FED1>

Dalzell, C (2016). 'Claiming Scotland's Assets: A Discussion Paper on the division of assets and debts to an independent Scotland'.
<http://allofusfirst.org/library/claiming-scotlands-assets-a-discussion-paper-on-the-division-of-assets-and-debts-to-an-independent-scotland/>

Dalzell, C (2016). 'Beyond GERS: Scotland's fiscal position post-independence'.
<http://allofusfirst.org/library/beyond-gers-scotlands-fiscal-position-post-independence/>

Ryan, P (2017). 'How to make a Currency: A practical guide'.
<http://allofusfirst.org/library/how-to-make-a-currency-a-practical-guide/>

Previous Common Weal reports that have also directly informed this work include:

MacDonald, J, MacQueen, N (2014). 'Defence and Foreign Policy in an independent Scotland: Key Considerations'.
<http://allofusfirst.org/library/defence-and-foreign-policy-in-an-independent-scotland-key-considerations-2014/>



Process and Structures

Interim Governance Period
National Commission for the Creation of
a Scottish State
Interim Borrowing Powers
Independence Day

Interim Governance Period

Immediately upon a vote for Scottish independence an Interim Governance Period will be triggered, to last not more than three years from the establishment of the National Commission (see below).

During this period civil servants who work on devolved Scottish functions shall continue to be employees of the UK home civil service but shall immediately have line management and chains of accountability altered such that the part of the civil service working on devolved policy shall become operationally independent.

The Scottish Parliament as elected at the 2016 Scottish Elections shall continue to have full mandate over all devolved policy-making and the Scottish Government as elected by that Parliament shall continue to form the devolved government for the duration of the Interim Governance Period. All agencies of government shall remain in place for this period.

The UK Parliament as elected in the Westminster elections of 2015 shall continue to have full mandate over all reserved policy-making and the UK Government as elected by that Parliament shall continue to form the government of Scotland on reserved issues. All agencies of UK government shall remain in place for this period.

A Transition Committee made up of Ministers from the UK and Scottish governments shall be established to monitor and oversee any changes to reserved policy matters during the Interim Governance Period.

The date of the independence referendum shall be established as the 'status quo' for the purposes of future negotiation. Policy changes made by either government during the Interim Governance Period or changes made in the run-up to the referendum which appear to be taken solely for the purpose of impacting on future negotiations shall not be taken to be the status quo for the purpose of negotiating and establishing baselines.

A Scottish General Election shall be held within three months of the date of Scottish independence to elect a government with a full mandate for all of the powers of an independent Scotland.

National Commission for the Creation of a Scottish State

A National Commission for the Creation of a Scottish State shall be established to undertake the work of designing and implementing the institutions of an independent Scottish nation state, to negotiate the terms of separation from the United Kingdom and to develop a constitution. It shall be established and operational in not more than three months from a vote for Scottish independence.

The National Commission will be mandated to implement institutions and systems and negotiate terms according to the criteria set out in this White Paper. In doing this it should be considered as a project-specific, time-limited specialist 'civil service' working on behalf of all of Scotland to ensure the best possible foundation for a new nation is built.

The National Commission will work in the interests of all of Scotland and not solely in the interests of any one political, commercial or other grouping. To ensure this, the National Commission shall be governed by a Council. This Council shall be wholly and solely responsible for agreeing and approving all the work of the Commission.

To ensure that the Commission works in the broadest possible interests of Scotland, the Council shall be designed such that no single organisation, interest group or sector of society shall have a majority position on the Council.

The governance model of the Council shall be the subject of further consultation. One possible option is that it should be formed via a tripartite system. One third of the governance would be allocated to political parties to appoint governors in direct proportion to votes cast in the 2016 Scottish elections. One third shall be allocated to civic organisations (to include business representation organisations), according to a method to be agreed by civic organisations themselves. One third shall be allocated to citizens through a process of participatory democracy.

The Council of the National Commission shall then appoint a senior management team. The management team shall then recruit teams to carry out the design and implementation of institutions and systems as described in this White Paper and a negotiation team to lead negotiations with the remainder of the UK. The Council shall have full management responsibility for the National Commission and rights of approval over all its work. It shall have the right to establish sub-councils to monitor individual aspects of the overall work programme, each sub-council to be established on the basis of the main Council.

The National Commission shall then set a date for Independence Day, to be not more than three years from its establishment. All of the work of the Commission shall be completed by that period.

The cost of establishing the National Commission and the Commission completing its work shall be estimated based on the individual cost estimates produced throughout this White Paper.

Interim Borrowing Powers

During the interim period after an independence vote but prior to full independence, Scotland shall require to raise finance to carry out the work necessary to build the institutions and systems of a nation state. During this period the Scottish Government as elected in 2016 shall retain full responsibility for the budget for devolved functions but shall, at the time of legislating for the creation of the National Commission, table a supplementary budget to authorise the expenditure necessary to set up the Commission. It shall legislate to delegate to the Commission the powers to draw up operating budgets for the period of its three-year lifetime. These shall be sufficient to resource the entire work programme of the Commission as set out in this White Paper. Financial responsibility for the operation of the National Commission and the debt that it shall incur over this period shall lie with the Commission's Council.

The National Commission shall be constituted such that it is able to raise finance by issuing bonds. It shall then fund its operating budget by issuing a series of five and ten year bonds. The Transition Committee shall request from the UK Government an extension to the Scottish Parliament's existing borrowing powers such that the Scottish Government shall be able to act as guarantor to the bonds issued by the National Commission, lowering the bond rate and reducing the cost of borrowing. It is assumed that, prior to establishing the robust systems which will guarantee Scottish fiscal and monetary management and prior to establishing a credit history, the National Commission backed by guarantees from the Scottish Government would be able to borrow at a rate approximately half a percentage point higher than the current UK borrowing rate.

More work shall be done to estimate the total borrowing required of the National Commission during the interim period based on the estimates for each individual task as they are costed throughout this White Paper. We shall then make estimates on the borrowing costs of raising this finance.

On independence day, the total debt accrued by the National Commission shall be added to Scotland's National Debt.

Independence Day

On the day established by the National Commission on which Scotland will become independent, the Commission shall be dissolved and the constitution and institutions implemented by the Commission shall take over responsibility for all functions currently reserved to Westminster.

Scotland shall be an independent country.

Key Institutions of an Independent Scotland

Constitution
Reform of the Scottish Parliament
Creation of a Scottish Civil Service
Citizenship, Citizen Identifier, Passports
and Data Sharing and Protection
A Scottish Treasury
Currency
Central Bank
Tax Collection Agency
National Statistics Agency
Department of Trade And Industry
Defence

Pensions and Social Security
Energy Supply
Borders, Customs and Immigration
Foreign Office
Consular Network
Supreme Court
National Television Channel and
access to BBC Programming
Media Regulator
DVLA
IT systems

Constitution

The National Commission shall create a constitution for the independent nation of Scotland. This constitution shall be based on the European Human Rights Act and the International Declaration of Human rights, enshrining the rights contained in them and in the context of international humanitarian law and human rights, the constitution should include a prohibition on weapons of indiscriminate mass destruction including biological, chemical and nuclear weapons. It shall also ensure commitment to the rule of Scots and international law and establish a democratic system of national elections which shall elect a parliament in proportion to the votes cast in that election.

It shall then be for the National Commission to devise a process for creating the rest of the constitution through a national participatory process in which citizens lead in creating the values, rules and underpinning laws by which Scotland is governed. This process should also create proposals on which international institutions Scotland should join, such as the European Union and NATO. For the interim period all existing constitutional conditions would apply, including maintaining the Queen as the Head of State.

This constitution shall be completed and ratified by national referendum not later than three months prior to Scotland's independence day.

A cost for undertaking a nation-wide participatory process for producing a constitution and for holding a ratification referendum shall be estimated.

Reform of the Scottish Parliament

Upon independence the Scottish Parliament shall take on all responsibilities currently reserved to Westminster as well as maintaining existing responsibilities, leading to a substantial increase in workload which cannot be performed by the existing Parliament. The number of members of the Scottish Parliament shall therefore be expanded to reflect the loss of Members of Parliament at Westminster.

Further work shall be required to establish by how much the Scottish Parliament should be expanded in terms of additional MSPs. In addition, work shall be required to assess the logistics of the existing Scottish Parliament, how it could be adapted to accommodate a larger number of politicians or to explore what other options are available. Consultation should also explore whether the members of the Parliament should simply be designated as 'MPs', no longer requiring the use of the additional 'S' to identify their subordinate position in the UK.

It shall be for the National Commission to devise the mechanism for expanding the number of elected representatives at Holyrood as part of its national constitution-building process. The principles by which expanded representation shall be elected shall be that the system is closely representative of all votes cast and returns political parties in fair proportion to votes received while ensuring a link between citizens and a responsible representative of their geographical area.

The Scottish Parliament does not have a revising chamber and would no longer have Westminster, the House of Lords or any other parliamentary body with the power to examine its work. It is therefore suggested that there should be further work and consultation on the creation of a 'Citizens Chamber'. This would be a second chamber of the Scottish Parliament and would be a core part of the legislative process. It would be made up of members of the public selected at random but weighted to represent the population of Scotland as a whole. It would have full scrutiny and inquiry powers and would produce reports on legislation and any aspect of government, including the power of censure. It would be expected to scrutinise and where appropriate

to produce proposed amendments to any legislation going through the Scottish Parliament. However, it would be a reviewing and advisory chamber and not a revising chamber.

Subject to the findings of the work above, a cost estimate shall be produced for adaptation to the Scottish Parliament and the establishment of a second chamber. The running costs for these shall be included in the budget set out in Part Four.

Creation of a Scottish Civil Service

An independent civil service for Scotland will be created. The National Commission shall develop a series of underpinning standards, principles and practices for a Scottish civil service. These shall be based on the principles and standards set out in the report of the International Civil Service Commission in its report Standards of Conduct for the International Civil Service published by the United Nations in 2013. These principles and standards shall include political independence and neutrality and shall be enshrined in the Scottish constitution.

The National Commission shall devise the employment and management structures of the civil service and a transition plan both for moving existing civil servants into that new structure and for recruiting additional civil servants to support the new policy functions of an independent nation state.

Consideration should be given to ensure an open and transparent recruitment policy which takes account of the need for the composition of the Scottish civil service to fully reflect the wider society.

Further work shall be undertaken to examine whether there are other more innovative approaches which should be taken at this stage. For example, to explore the merit of separating the functions of policy design and policy implementation and to examine whether the partially-political element of the civil service (political appointments such as Special Advisors) is functioning effectively.

The cost of the work necessary to create the new civil service shall be estimated. The cost of running the new civil service is contained within the budgets set out in Part Four.

Citizenship, citizen identifier, passports and data sharing and protection

From the date of independence Scottish citizenship shall be automatic for those who are British citizens habitually resident in Scotland and any British citizen born in Scotland but currently living outside Scotland.

After Scotland becomes independent any child born in Scotland to at least one parent who has Scottish citizenship or indefinite leave to remain at the time of birth or a child born outside Scotland (but whose birth is registered in Scotland) with at least one parent who has Scottish citizenship will automatically become a Scottish citizen.

A citizen of any country (including Britain) who has a parent or grandparent who qualifies for Scottish citizenship will have the right to register as a Scottish citizen. Migrants in Scotland legally and citizens of any country who have spent at least ten years living in Scotland at any time and have an ongoing connection with Scotland shall have the right to apply for Scottish citizenship, subject to the immigration and naturalisation policies of the Scottish Government at the time of application.

Migrants currently in Scotland either through studying or working and asylum seekers resident in Scotland will be entitled to apply for citizenship. The basis for entitlement will be as follows: residency requirements (for migrants and refugees) of two years - refugees will be given a work visa within this two year period; applicant must have intention (that can be evidenced) of desire to continue to live in Scotland; applicant must be able to show fluency in or efforts to learn any official language of Scotland (subsidy for language courses should be provided); no test required for citizenship; naturalisation actively offered to students who achieve an honours degree or above in Scotland.

Scotland will allow dual citizenship with the UK for any citizen who wishes it, subject to a formal

agreement between the Scottish Government and the UK government as was the case with Ireland upon independence.

Any Scottish citizen will have the right to hold a Scottish passport. The National Commission shall have the responsibility of designing and establishing a Scottish Passport Agency. The Scottish Government will continue to recognise any currently valid UK passports until their expiry date.

Further work on the establishment of a Scottish Passport Agency will be produced.

All Scottish citizens will have a single 'citizen identifier'. This will be a code which will replace National Insurance Numbers as the unique identifier of the citizen and shall be used to identify citizens in all the work of government and for the purposes of accessing public services.

It is proposed that a citizen identifier should link an individual to all data held on that individual in the public sector and for all purposes of government. It is proposed that further work is done to explore what this should mean in the 21st century (including what a citizen identifier should be called). For example, one model would be for all public data held on an individual to be the 'property' of the individual, held in a national datastore and that the individual should then have control over that data including with whom the data would be shared. Some data would be shared compulsorily such as employment and income data for tax purposes. Other data would be required to be shared to access public services such as health data which would be held by the individual but would be automatically shared with a registered doctor etc. This work would create a system of citizen data much more appropriate to the modern age but would require substantial work on implementation, data security and data rights.

Work will be done to cost the development of a passport agency and the establishment of a citizen identifier, the implications and costs for existing public sector IT systems and the cost of a new system of citizen data storing if that proposal is pursued.

A Scottish Treasury

A Scottish Treasury shall be created. At present a substantial amount of the work which would become the responsibility of the Scottish Treasury is carried out by the Scottish Government's Directorates for Finance and the Constitution and for Economy, Jobs and Fair Work. The National Commission shall design and implement a Scottish Treasury based on these existing Directorates.

There are three main responsibilities which must be added to create a full Scottish Treasury. These are: financial services policy (including banking and financial services regulation, financial stability, and ensuring competitiveness); strategic oversight of the tax system (including direct, indirect, business, property, personal tax, and corporation tax); and ensuring the economy is growing sustainably.

The UK manages the national debt via a National Debt Office which operates largely as a conduit between government and the central bank, local authorities and money markets. The National Debt Office also issues and manages Government Bonds to cover debts. A Scottish equivalent will be necessary. The National Commission shall incorporate this function into the Scottish Treasury.

The UK also has an Office for Budget Responsibility. This shall not be replicated in Scotland but its key functions shall be carried out by the National Statistics Agency (see below).

The majority of the staff required to operate a Scottish Treasury are already in place in Scotland and so the creation of a Scottish Treasury will require only a modest expansion in staffing and budget and this would be met through existing allocated Scottish spending (see Part Four below).

Currency

An independent Scottish currency shall be created and launched on the day of independence or as soon as practical afterwards. The value of this currency shall be initially pegged to the value of the UK Pound Sterling (GBP) for at least the transitional period but the option to change the terms of the peg or to float the currency shall be considered as and when economic and political circumstances prove the comparative advantages of those options.

The naming of the currency and design of the physical coins and notes shall be decided via a public consultation. This should happen as soon as possible after the independence referendum in order to allow sufficient time for the printing and minting of sufficient notes and coins as well as any conversions to ATMs, vending machines and other devices.

As with the case of the Euro, an electronic version of the Scottish currency shall be introduced and made available for use before the formal launch of the physical coins and notes.

Unlike the case of the Euro, the GBP shall continue to exist after the launch of the Scottish currency which has the following implications:

The Scottish Government will offer all Scottish residents the right to a Scottish currency denominated bank account and the ability to convert their Sterling savings to the Scottish currency at the pegged 1:1 rate but this right of conversion will not be mandatory at any time. This shall be similar to the “no compulsion, no prohibition” rule used during the transition period of the launch of the Euro.

Any Scottish resident who is eligible to receive social security payments such as a state pension from the rUK Government may continue to receive them in GBP into their GBP bank account if desired.

Scottish social security and other payments shall be paid in the Scottish currency and taxes shall be paid in the Scottish currency. A communications campaign shall be launched to encourage and assist with account conversions to facilitate this.

During the transition period any electronic payment from a Scottish currency account to a Sterling account (or vice versa) will be treated as a payment in the equivalent currency without any foreign currency transaction costs. Agreement shall be sought from the rUK Government to ensure reciprocity on this point.

During the transition period standing orders attached to a redenominated bank account will themselves be redenominated into a standing order for the equivalent amount of the Scottish currency.

Any existing business contracts priced in Sterling will continue to be valid in Sterling until their conclusion or renegotiation.

A payment system (to replace the Sterling-denominated BACS system) shall be created and owned publicly, to be based on ISO2002 principles. The national payment system shall be open to use by anyone.

A transition period of approximately three years will be outlined with milestone dates published such as the launch of the electronic currency, the creation and/or redenomination of prices, accounts, contracts and services into the new currency, progress through the design phase of the physical coins and notes and then formal launch after which the Scottish currency shall be considered entirely separate from the GBP (regardless of any continuing peg to its value).

After the final transition date any further interactions between the Scottish currency and GBP shall take place in a similar manner to the interactions between any other two pairs of independent currencies.

Further work is underway to cost the implementation of a Scottish currency and to provide more details on the implementation and transition process.

Central Bank

A Scottish Central Bank will be founded near the start of the currency transition period and will either take on or be a part of a supervisory body to ensure the smooth progress of the transition. An annual operating budget for the Central Bank will be set by the Scottish Government in accordance with its needs and remit. A bank with a similar size and remit to the Central Banks of New Zealand or Denmark would incur annual running costs of about £50 million per year and is expected to be self-funding or returning a net surplus through its investments and activities.

The core function of the Central Bank will be to manage macroeconomic and monetary policies such as deciding the national base interest rate, working towards inflation targets, managing the currency peg or exchange rates, deciding whether or not to institute capital controls in any form and controlling the volume of money within the economy. A Foreign Currency Reserve of a minimum of £15bn shall be established to enable the pegging of the Scottish currency to Sterling. This amount shall be increased via available means towards £40bn over the currency launch transition period. The cost of establishing the Central Bank shall be deducted from any payment to the UK for public debt to offset loss of right to access the Bank of England and its assets.

Other core functions of the central bank will include setting or enforcing regulations within the financial sector, managing the foreign reserves required to stabilise the value of the currency and acting as a lender of last resort in times of economic crisis.

Through the work of the National Commission Currency and Banking Working Group the Central Bank shall be designed to create a robust set of financial regulations, placed on a statutory footing, which shall limit the ability of the Scottish financial industry to create a situation where their individual failures spread a 'contagion' of failure throughout the rest of the economy. Further, any protection and recovery plans, including bailouts or emergency loans, should follow the principle of protecting the savings, investments and pensions of Scottish residents and of protecting the wider economy.

The Central Bank should maintain ancillary functions involving the direct management of and intervention in the Scottish economy which may include oversight of the network of Scottish National Investment Banks.

As is the case with the Norwegian Central Bank, any sovereign wealth fund which Scotland chooses to create could be managed by the Scottish Central bank with respect to investments outwith Scotland.

The Scottish Central Bank will not involve itself directly as a commercial bank as the experience of some states which have allowed this have revealed conflicts of interest and accusations that such a bank may set rules which suit its own commercial activities.

The Scottish Central Bank will also have a role of gathering and publishing economic data relevant to its remit.

Further work is required on the cost of setting up the Central Bank.

Tax Collection Agency

A Scottish tax collection agency – to be known as Revenue Scotland – shall be established. This shall be developed from Scotland's existing tax authority, also known as Revenue Scotland.

The existing Revenue Scotland has control over the Scottish Landfill Tax and the Land and Buildings Transaction Tax. The Scottish Rate of Income Tax is devolved to Scotland, but is administered by HMRC. There is therefore already a Scottish tax code number for everyone in Scotland. This makes the transition on independence from HMRC to a Scottish tax authority straightforward, requiring no entirely new institution but rather the transfer of the codes for each taxpayer from HMRC to Revenue Scotland.

The governance structures of Revenue Scotland shall be strengthened with a Supervisory Board consisting of a diverse range of stakeholders, including but not limited to those from business, trade unions, public sector, government and ordinary taxpayers. No one grouping shall have a majority

position on the Supervisory Board to ensure that the development of consensus would be necessary for decision-making. All commercial interests should be declared and conflicts of interest avoided. This Supervisory Board should not be involved in the day to day affairs of Revenue Scotland, but form and ensure that Revenue Scotland is working to meet its objectives and committing to its principles in practise. It must scrutinise the operational functions of Revenue Scotland in-depth, with staff being directly accountable to the Supervisory Board. All Supervisory Board Minutes should be made publicly available, and an end of year report should be produced. The details of all major tax settlements and tax whistle-blowers should be presented to the Supervisory Board.

A major investment in staffing will be necessary to make Revenue Scotland effective and the closure of local HMRC offices in Scotland should not only be halted but reversed to create a geographically sensitive tax collection system. This investment will reap long-term rewards, with experienced tax officers on average bringing in revenue approximately 25 times their cost.

A Scottish tax code will be necessary to replace the HMRC's code, which is renowned for being excessively opaque and thus vulnerable to loopholes and therefore substantial tax avoidance. A three-year transition period to independence would provide sufficient time to start from scratch and establish an entirely new code.

The National Commission shall therefore appoint a special task force for the creation of a Scottish tax code. This should consist of a similar set of stakeholders as the Supervisory Board mentioned above with the same governance principles, and should consult widely before drawing conclusions, including but not limited to institutions established for the creation of a Scottish constitution.

Building and extending on Revenue Scotland's current set of principles of proportionately, certainty, convenience and efficiency, the starting principles of a Scottish tax code should include the following:

- A tax system based on the peaceful participation of all, where co-operation is valued above competition, is a fundamental requirement of taxation in Scotland, and between Scotland and the rest of the world.
- Every person of similar income and wealth should pay similar taxation, and those failing to do so should face penalty. The same applies for businesses.
- The principle of honesty and truth in all aspects of the Scottish tax system is paramount. No aspect of the Scottish tax code should undermine or contradict this principle.
- The Scottish tax code should be interpreted in Scots law as guidance: the important factor is not the letter of the code, but the meaning of the code. In facilitating this, it will be written with the utmost simplicity so as to be as far as possible accessible to all.

The tax code should become operational at the start of the new tax year, 6 April. In the six months in advance of the introduction of the new code, a widespread educational campaign should be introduced making the public aware of the introduction of the new code and what it means for them.

In the three year transition period to independence, the National Commission should undertake a full audit of what staffing Revenue Scotland requires to be fully operational, with a target of reducing the tax gap by one-third within two years. This ambitious target will require a higher expenditure than HMRC currently, despite the fact that moving jobs from London to Edinburgh will mean pay (especially for senior staff) will be lower. These staffing costs will also include the creation of a Customs and Excise Division (see Customs, Borders & Immigration for detail). Therefore we estimate the annual running costs of an enhanced Revenue Scotland to be approximately £500m, based on a revenue percentage share of HMRC current running costs plus 50 per cent. Meeting the target of closing the tax gap by one-third would see an additional £3.5bn in revenue for an independent Scottish Government.

Further work shall be carried out to build on all the recommendations in this section and to explore further what a Scottish tax code should look like.

National Statistics Agency

An agency, to be named Statistics Scotland, shall be created with an annual budget of not less than £25 million per year (Scotland's 'share' of UK statistics spending) and employing approximately 420 people with options to create a more expansive agency funded up to around £80 million per year and employing around 900 people (which would represent an agency scaled similar to that of New Zealand or Sweden).

Statistics Scotland would replace entirely the current system which involves work done by the UK Statistical Agency and work commissioned by Scottish bodies such as SPICe, the Global Connections Survey, SIMD and Scotland's Census.

The remit for Statistics Scotland shall be built on the premise that the world is an increasingly data rich and data dependent place and many countries now employ a dedicated statistics agency through which the state of the country is monitored. This allows new policies to be formulated by an evidence and needs-based approach and for the efficacy and effectiveness of that policy to be monitored once it is introduced.

The base funding for this shall be derived from existing Scottish expenditure on UK statistics, with expansion being funded from Scottish budgets.

Statistics Scotland shall be responsible for commissioning, processing, archiving and making available to the public and all other interested bodies a full range of statistics concerning Scotland.

These statistics shall be gathered routinely on a wide range of subjects covering topics such as but not limited to: population and demographics; economic indicators; health, well-being and happiness; income, work and business; internal and external trade; and equality and social attitudes. Additional data gathering and handling for bespoke purposes may also be commissioned by any group on the condition that the data is released publicly and transparently on the same terms as other projects.

Statistics Scotland shall also be responsible for conducting and processing the Scottish census to be held every ten years with the next one due in 2021.

Further work shall be done on the governance model for Statistics Scotland to ensure its independence from government and the trustworthy nature of the data it produces. There shall also be further work on the mandatory range of statistics which shall constitutionally be required of Statistics Scotland.

Department of Trade and Industry

Scotland will require to set up a Department of Trade and Industry. There is some existing trade support infrastructure (such as Scottish Development International) which already exists in Scotland. The purpose of a DTI would be to regulate and manage trade and economic development issues and to encourage Scottish exports. Some further work will be carried out to create a model for a Scottish DTI.

Defence

A Scottish Defence Force shall be established. It shall be based on three operational principles:

- An approach to defending Scotland's territorial integrity based on the principle of 'securing the perimeter': ensuring Scotland's coast line and sea area is secure. A Scottish Coastguard service should be established to protect Scotland's sea lanes and support the work of Customs officials (see Borders, Customs and Immigration section for more) in cracking down on smuggling activities on Scotland's coast line.

- Key 21st century security threats to Scotland include cyber-attack and environmental protection. This will almost certainly be bigger dangers than the potential of foreign invasion. The Scottish Defence Force should be organised with the skills and equipment necessary to reflect modern security priorities.

- Scotland's foreign policy will be based on the principles of peace and international solidarity. In that vein, it will not seek to replicate the UK's desire to project global military force, and will therefore not be seeking to establish a blue water navy and will dismantle the Trident nuclear missile system at Faslane. Instead, Scotland will look to make a contribution to international peacekeeping efforts that have the backing of the United Nations. Soldiers should be trained with the prospect of this sort of deployment in mind.

More work will be done to establish the nature of the force and the equipment and assets it requires to meet these principles and others deemed important by looking at equivalent nations internationally and to estimate the start up costs. It is estimated that the annual running costs of a Scottish Defence Force will be in the order of £1.95 billion

Pensions and social security

Work is being started on designing a social security and pensions system in Scotland. It is assumed that this will be based on a revenue model but will explore a range of options from replicating something approaching the existing system through to the introduction of a Citizens' Income. The primary principle will be security of provision for pensioners and a fair and respect-driven system of support for people who face poverty. The proposal will be fully costed.

Energy supply

A Department for Energy, a publicly-owned Scottish Transmission Systems Operator and an independent Energy Regulator shall be established.

The Department for Energy shall be part of the civil service and shall pursue long-term energy policy and strategy for Scotland according to the policies as set by democratically elected Scottish Governments. While energy policy cannot be determined prior to democratic elections, it will be helpful to design the future technical options for the energy system based on the likely direction of travel for Scottish energy policy.

This is likely to be based around renewable energy with energy storage providing resilience and pursuing a strategy of national energy self-sufficiency. That would be supported with a smart-grid model and an examination of whether market pricing is the most efficient and effective way to secure energy supply. Other issues which would influence the design of an energy system may include:

- Integration with a coherent industrial strategy to facilitate the development of new industries closer to where energy is produced thus minimising energy lost in transmission through the grid. These industries could benefit from potentially much cheaper costs per energy unit and longer term fixed prices, making energy intensive industries viable e.g. aluminium smelting.
- Ensuring that renewable projects above a certain size are at least 50 per cent owned by a Scottish public body that would reinvest profits back in Scotland.
- Changing the policy that government guarantees on price for generators must be fully paid by consumers and industry through the energy price and accept that some infrastructure investment should come from general taxation, thus lowering energy bills.
- Encouraging energy cooperatives and local energy companies to socialise the value of energy generation in their area.
- Funding major energy projects through a Scottish Investment Bank rather than foreign

investors who export profits.

- Establishing a publicly owned electricity supply company.
- Bringing the grid into public ownership.
- Examining whether an electricity market is a sensible way to ensure security of supply. All the evidence is that a market driven policy reduces investment in non-monopoly infrastructure, becomes increasingly complex and disjointed, reduces generating and network capacity and hence reduces the networks ability to respond to unexpected events e.g. power failures or severe weather.

To ensure that energy infrastructure is designed to accommodate these and other likely policy directions it is proposed that the National Commission should establish a National Energy Forum to set out likely policy directions and to create the structures which would support that direction. That would include developing a ten-year plan for ensuring energy self-sufficiency.

The Scottish Transmission Systems Operator will take over the responsibility for Scotland's national grid. Initially it shall not take ownership of transmission assets but shall set policy and development plans for the grid, contracting existing energy companies for maintenance and operation. The STSO shall then have full responsibility for managing and developing the grid and other distribution and storage systems according to future government policy. While the existing grid infrastructure shall not be brought into public ownership immediately, future development of a smart grid should be done in public, community or mutual ownership. A separate grid control centre should be established to replicate the National Grid's electricity load balancing facility. Expert advice should be sought on the technical requirements for this centre and on the costs. Ireland with a publicly owned TSO, Eirgrid, generates a profit from its operations through the charges made during the retail sale of energy.

The Scottish Energy Regulator shall be responsible for ensuring that the interests of customers are properly represented in both the generation and retail sale of energy and through the licensing of energy companies. It will be funded through a levy on companies.

More work is underway on all aspects of establishing a Scottish energy system and ensuring energy security in an independent Scotland.

Borders, Customs and Immigration

Scotland shall establish a system of borders, customs and immigration based around membership of the UK Common Travel Area, a Customs and Excise Division of Revenue Scotland, a system of 'Smart Borders', an Immigration Agency and an Asylum Agency.

Scotland will continue to be part of the UK Common Travel Area, which since 1923 has been based on open borders allowing for minimal identity checks and smooth transit of goods, and consists of states and dominions currently inside and outside the EU (Ireland and the UK being inside; Isle of Man, Jersey and Guernsey being outside).

This approach will require close co-operation between customs, immigration, police and military officials in Scotland and the rest of UK, such as currently exist between Ireland and the rest of UK, and indeed between almost all nation-states bordering one another across advanced economies. Scotland will operate on the principle of 'smart borders': border operations taking place not at a fixed state boundary location but wherever border functions can be most effectively and efficiently conducted.

For Customs, it will be necessary to establish a Customs & Excise Division within Revenue Scotland and to substantially increase the number of trained and active custom officers in Scotland to 820 staff. This division will be responsible for the safety and taxation of all goods, and will collect indirect taxes (which accounts for 39 per cent of all UK tax revenue) such as alcohol, fuel and excise duty, VAT and Air Passenger Duty.

Large Trader Control Units will be established at strategic locations targeting areas of customs control most likely to increase tax revenue yield. Inland Clearance Depots (ICD) can be set up at road, rail and airport hubs allowing cargo to move quickly to ICDs near their operations. Some Customs depots may be located at border points for inspections, but these should be intelligence led and infrequent enough to cause no serious travel disruption.

Scotland's coastal territory will require a beefed up Customs maritime operation to address smuggling, a significant problem (including loss of revenue) given little attention by HMRC. Four large Cutters ('Customs boats') should operate West, North and East with one in reserve. Two smaller inshore vessels will be necessary to cover islands. The maritime branch would work closely with a Scottish Defence Force (see above), Police and Security services to ensure the safety and sovereignty of Scotland's coast line. As no permanent Defence or Customs force operates in this territory currently, this shall be a major counter-terrorism and crime measure.

For immigration, the UK Common Travel Area means citizens of rUK, Scotland and Ireland will be able to travel freely and without disruption across the Scottish border, exempt from immigration control.

For non-Common Travel Area citizens, passport checks will be in place at Scottish ports and airports, as is the case currently. As explained in Citizenship (above), Scotland will operate a new study and work Visa and citizenship system based on the principles of openness and inclusivity. A new Immigration Agency will be based on the principle of treating applicants with dignity and respect, not criminalisation.

An Asylum Agency should be established capable of managing protection of refugees from across the world and processing asylum claims in a fair, open and inclusive way. This agency should have its own supervisory board which includes on it former asylum seekers.

The agency should have the aim of making Scotland as safe and welcoming a place for refugees as possible. This should include providing safe and secure housing (closing detention centres) with choice as to where in Scotland to live. Housing options should be connected to labour market opportunities, with asylum seekers given the right to work immediately and supported with job searching and training, including ESOL. Special support should be offered to those asylum seekers who have suffered abuse and are potentially feeling the effects of trauma. Children should be given special teaching support to help integrate into schools.

Further work on the cost and design structure of a Customs & Excise, a smart borders model and a Scottish immigration agency is planned.

Foreign office

Scotland shall establish a Foreign Office as part of its civil service. The role of the Foreign Office will be to enact diplomatic policy on behalf of the Scottish Government, to ensure consular support for Scottish citizens abroad, supporting and promoting trade, coordinating international aid and development and contributing foreign policy advice to other departments and agencies of government including on defence strategy.

Further work on setting up a foreign office is underway, including assessments of cost.

Consular Network

An independent Scottish consular network shall be established by the National Commission. The current UK annual budget for running the Foreign and Commonwealth Office of approximately £1.5bn per year shall be considered the ceiling for the running costs of an independent Scotland's consular network in the event of the desire to replicate the extent of the UK's global diplomatic network.

However, this represents a far greater sum spent per diplomatic post by the UK than is spent by many other countries more comparable to Scotland. Assuming a consular network model based on spending around £1m per year per post (plus approximately £1m per post for initial purchase and procurement), would allow for an extensive consular network at significantly lower cost than this

ceiling.

Should a less extensive diplomatic network be proposed by the National Commission then negotiations over embassy-sharing with the UK or with other states may be entered into and a discussion opened over strategic priorities in accordance with Scotland's desired foreign policy objectives.

Further efficiencies may be realised by strategically placing embassies such that one embassy may be easily reached from multiple nearby countries which maintain relatively open borders and good transport capabilities (for example, an embassy in Belgium may also reasonably service the diplomatic needs of the Netherlands, Luxembourg, Germany, France and the European Union).

If Scotland becomes a member of the European Union then Scottish citizens shall benefit from mutual rights of consular protection afforded to all EU citizens whereby if assistance is required whilst in a country in which Scotland does not maintain an embassy then that citizen may seek aid from the embassy of any other EU member state under the same conditions as nationals of that state.

For the purposes of estimating Scotland's first year budget a population share of the UK's total overseas spending shall be assumed which shall be taken to cover the costs of operating the consular network, total Scottish foreign aid and the membership fees of any and all international organisations

Further work on where Scotland's strategic focus for consular presence might be placed is planned.

Supreme Court

Following independence, Scotland will no longer have a supreme court as part of its legal system. It is possible that the current system with a criminal Court of Appeal and the Court of Session can cover criminal appeals. However there is a case for a Supreme Court which would also act as a constitutional court. Further work shall be done on this.

National Television Channel and Access to BBC Programming

Work is planned to design an approach to national public service broadcasting, both in relation to creating a Scottish national television channel and in gaining access to programming from the BBC. This work will explore future developments on the balance between live programming and on-demand television, the remit and ethos of public sector broadcasting in Scotland and the potential funding and governance models. It shall work on the basis of seeking to achieve a free-to-access national broadcasting service which is free from commercial advertising.

Media regulator

Work is planned to create a proposal for a Scottish media regulator to cover the role both of Ofcom and to pick up the role of regulating news media in print and online. A costed model shall be produced.

DVLA

There are two broad options for replicating the function of the DVLA. One is to reach an agreement with the UK Government to share the existing DVLA. The second is to set up a Scottish DVLA. Both are entirely sensible approaches, the sharing option easier to achieve in the short term, the new start option being more flexible in the long term. Either way, the DVLA is self funding through the payment of road tax so there are no substantial financial implications on which option is chosen.

IT Systems

It shall be necessary to establish IT systems covering all the services and requirements of an independent Scotland. This will not be a trivial project and will require the full three-year timescale to complete. For the purposes of the budget a figure of £100M has been assumed.

Immediately on the establishment of a National Commission, an IT Working Group will be established to report within two months on all necessary systems, and estimate the effort required to have these available on independence day. Where practical new systems should work alongside the existing UK systems in dummy mode for at least two months prior to going live.

The extent to which existing IT systems (some of which are UK systems) can be adapted must be measured against the redesign of systems and infrastructure as proposed in this White Paper. The IT systems must be able successfully to allow the use of all new powers from Day One of independence.

Existing Scottish Government IT centres, or UK facilities located in Scotland should be able to incorporate the physical equipment; additional IT staff will be required.

Ensuring IT security and prevention of cybercrime shall be a primary remit of the IT Working Group which should create a standing Advisory Panel on the subject, drawing from Scotland's technical experts. In general, Open Systems which can be checked by experts across the world will provide better security than proprietary systems. Some specialist services (for example the military) may require specially designed electronics to ensure they have no security weaknesses.

Further work is planned to look at options for a Scotland-wide approach to new IT systems. It will look at ideas contained in the paper such as a citizen data identifier, citizen control of data, consistent open-source protocols for the Scottish public sector, payment systems for the Scottish Pound and so on. This additional work will enable an estimate of the cost of this work.



Negotiations

Allocation of Debt and Assets
EU Membership
International Institutions
Treaties

Allocation of debt and assets

Before or as soon as possible after the referendum result for independence, the National Commission shall commission a Register of Assets at least across Scotland and, if possible, across the UK to determine the value and location of all fixed and mobile assets which may be allocated between Scotland and rUK.

In the event that the remainder of the UK (rUK) seeks to be considered the 'continuing' or 'successor' state to the UK then Scotland shall accept and endorse this claim and recognise rUK's continuing or succeeding membership of any international organisations of which it wishes to remain a member (e.g. the United Nations).

Scotland shall then accept and endorse rUK's claim of ownership over all of the UK's mobile assets and liabilities as a starting point for allocation negotiations.

Any allocation from this point shall take place on a 'zero-option' model whereby Scotland accepts a share of rUK debt up to the value of any assets inherited or allocated. The cost of setting up new infrastructure and procuring mobile assets from states or markets other than the rUK shall be financed by the Interim Borrowing Powers. To prevent a technical default on the part of rUK, responsibility for the servicing of individual bonds shall not be transferred to Scotland but the value of them shall be negotiated into a repayment framework which shall consist either of a one-off payment to rUK serviced by a Scottish bond issue or by a limited term, fixed rate repayment scheme as negotiated.

As rUK will be the sole continuing or successor state to the UK, the legal liability to fund reserved issue public service pensions and the portions of the state pension entitlements gained prior to independence will remain with rUK. Should rUK desire to transfer ownership of these liabilities to Scotland then a one off payment to compensate for the National Insurance and other contributions made to the UK will be requested. This payment may be offset against other debt transfers or may be invested to improve future payments to Scottish pensioners.

In the event that it is agreed by both Scotland and rUK to legally dissolve the state of the UK and for both rUK and Scotland to be considered 'new' states then Scotland shall seek for assets and liabilities to be allocated initially based on a combination of share of population, GDP, contribution to national budget, proportional benefit from state spending and other factors in compliance with the IMF's internationally recognised 'key principles'.

As this case may require the actual transfer of ownership of debt, impartial third party involvement from bodies such as the IMF shall be sought to mediate this process between Scotland, rUK and any involved creditors.

Should any required assets be withheld from one party by the other then the cost of replacing them shall be subtracted from the value of debt transferred. In this event, Scotland shall endorse and support rUK membership of international organisations on an equal and reciprocal basis.

In both cases it is expected that ownership of fixed assets shall be transferred on a territorial basis and that any mobile assets deemed essential for the functioning of those fixed assets shall remain with those fixed assets as per the 'efficiency principle'.

It is expected that military assets and liabilities shall be negotiated separately from non-military assets and liabilities but that both negotiations shall be conducted in accordance with the above internationally recognised principles.

Should the final net debt taken on by Scotland be substantially less than its nominal population share of the UK's debt, the projected fiscal position of Scotland's first budget should not be substantially

worse than rUK. Should the negotiations result in the amicable securing of all assets and resources necessary for the continued operation of a functioning state, then Scotland shall acknowledge the moral duty it has not to cause onerous suffering to the citizens of rUK as a result of their taking on the management of the remaining UK debt.

Therefore the case shall be made for further negotiations to relieve this burden which shall be coupled with or conditioned upon rUK agreeing a degree of relief from austerity and debt repayment by means such as but not limited to a one off wealth tax, banker levy or similar compensation towards ordinary citizens from those responsible for the UK's economic inequalities.

Work on the allocation of debt and assets shall continue as more work is completed on the assets required for a new Scottish state and recommendations on how those assets shall be procured is produced.

EU Membership

It is not yet possible to establish a specific strategy on an independent Scotland's relationship with the European Union as it is not at all clear what will be the relationship of the UK post-Brexit negotiations. Assuming that the UK is no longer a full member of the single market it is suggested that Scotland should make an immediate request to join EFTA. From there there are three possible directions. One would be to maintain EFTA membership but not seek full membership of the European Union. One would be to begin negotiations to join the European Union. One would be to withdraw from EFTA and seek some kind of Brexit-style deal. As this question has not been put to Scotland it is suggested that this be a core question which is asked and answered during the widespread, citizen-driven development of a Scottish constitution and that the final position should be ratified through a referendum on the final constitution, possibly containing a specific question about the EU position.

International Institutions

It is suggested that there should be three methods to deciding what approach should be taken to a range of international institutions. The first is to commit in the White Paper immediately to negotiate membership upon a vote for independence. The second is to develop a position on membership through the large-scale participatory process of developing a constitution. The third is that decision on membership shall be left to decisions made by the government(s) elected after Scottish independence. Work shall be done to identify the full range of international institutions (for example the United Nations, World Trade Organisation, International Monetary Fund, International Criminal Court, NATO etc.) and to propose into which of the above categories each shall be placed.

Treaties

It is suggested that international treaties to which Scotland, as part of the UK, is currently a signatory should be placed into one of three categories. Those three categories shall be something like 'sign up to treaties on exactly the same terms as the current UK terms', 'allow treaty commitment to expire' and 'enter into negotiations over treaty'. Further work shall be carried out to identify the main relevant treaties and to propose which of these categories each should be placed.



Budget, finance and borrowing

Borrowing and liquidity

National debt

Year One Budget

Borrowing and Liquidity

Upon independence, Scotland shall require to refinance its National Debt, provide sufficient borrowing capacity to support and sustain its annual budget and ensure liquidity in the public and private sectors. As an affluent, advanced economy already active in money markets the most cost-effective means of doing this will be to issue Scottish Government bonds.

Markets will determine the yield required to lend money. Until the Scottish Central Bank, the Currency Board and the independent Scottish Government's financial policies become clear, a premium may attach to bond yields. For that reason a series of shorter term bonds may initially be issued which can be bought back for longer term bonds once market confidence in Scotland has been achieved. The National Commission shall be tasked to create conditions which will maximise market confidence prior to independence through the terms of reference of the Scottish Central Bank and Currency Board and assurances in the national constitution that future government accounts will be provided transparently and that budgets will be scrutinised by experts acting for the Citizen's Chamber. Through negotiations the aim shall be to achieve a lower debt to GDP ratio than the UK post independence which will also lower rates.

Further work shall be carried out to estimate likely borrowing requirements to finance the national debt as explained in the sections 'interim borrowing powers' and 'allocation of debts and assets' above (the sum of the cost of establishing institutions and systems and an agreed debt repayment to Westminster). A cost and strategy for financing that debt shall be set out. The public sector borrowing requirement for year one of independence is set out in Year One Budget below. The cost of ongoing financing of public borrowing for the initial years of independence shall be estimated and costed into the budget.

National debt

Until and unless a National Audit is conducted and a Register of Assets created, it is difficult to determine the value of transferable mobile assets which may become the property of Scotland upon independence.

However, a reasonable share of UK mobile military assets or an examination of the volume of defence assets belonging to countries comparable to Scotland suggests an attached value of approximately £1bn worth of assets.

At first estimate there appears to be little in the way of non-military mobile assets which are not either already under the devolved control of Scotland (such as publicly owned ferry stock), may be non-transferable under the 'efficiency principle' or may be artistic or cultural artefacts which, whilst important and should not in any way be understated, may not be essential items required for the functioning of an independent government thus should be subject to separate negotiations.

Much of the debt incurred under a 'zero-option' negotiation will therefore come from the costs involved in setting up those areas of government currently either reserved or absent. The following is a summary of the estimated costs of set-up (over leaf):

Functions to be created	One-off cost (NOTE these are rough first estimate, all in £mn)
Cost of process of creating Scottish constitution	TBC
Cost of adaptation of Scottish Parliament plus Citizen Chamber	£500
Cost of replicating reserved services including civil service, passports, Scottish Treasury, tax collection agency, national statistics agency, Department of Trade and Industry, social security service, borders, customs and immigration service, national television channel, media regulator, DVLA	£1,000
Currency and Central Bank	£15,000
Defence	£2,000
Consular network and Foreign Office	£200
Energy	TBC
IT Systems	£100
Total	£18,800

The total debt incurred under a 'zero-option' separation will therefore be in the order of £20bn in total (note this is a very early and very rough estimate)

Mobile assets involving art and cultural assets may be subject to a separate negotiation structure, possibly on a per item basis. Given the intensely political potential of this subject as well as the cultural weight to be applied on some artworks which may inflate or transcend their monetary value and given the lack of a current central register of these assets, it is difficult to estimate the net monetary value of transfers which may result from these negotiations.

Total asset purchase/transfer required by Scotland is not expected to exceed £50 billion which, even assuming a substantial "premium" on the price of Scottish bonds compared to those of the UK, will substantially reduce Scotland's debt interest repayment burden by approximately £2bn per year.

One Year Budget

Independence shall have no impact on levels of public spending in and of itself and will only change as a result of the policies regarding them being changed via the usual means. The following is therefore an outline of the Year One budget for independence subsequent to the 'state creation' work outlined in this White Paper and to be enacted by the National Commission and allowing for the costs and changes carried out during the process of creating Scotland as an independent country.

This shall be the default budget on independence day. Elections for a Scottish Government will be held within three months of independence day and each political party seeking election shall set out how it would alter this default budget from the moment it gains office. From that point onwards the budget of an independent Scotland shall be subject to a democratically elected government as in any other nation state.

The default budget assumes that spending on all devolved functions (such as education, health, justice, housing and transport) shall remain the same in real terms as the level of spending prior

to independence. It assumes that the expenditure on reserved functions shall also remain the same in real terms other than where they are altered as set out in this White Paper. It assumes Scotland assumes its own National Debt from day one and that it finances that debt in international markets and assumes (for year one) a premium on borrowing rates for Scotland. It also assumes that a revised Scottish tax code will maintain all tax rates and thresholds shall be set such that an individual's net contribution is at or very close to the current values but that a substantial move shall be made to reduce evasion and avoidance.

It is assessed that along with the negotiation position for debts, other liabilities and assets as set out above this will create a budget for Year One of independence in which there are no cuts to public services or other public expenditure beyond what would be the case by remaining in the UK and where the fiscal balance (the net fiscal situation once expenditure is subtracted from revenue) is no worse proportionately for Scotland than it would be if Scotland remained in the UK.

Prospective Default Budget for Year One of an Independent Scotland	
Fiscal Area	Income (£mn)
Income tax	£12,151
Corporation tax (excl. North Sea)	£3,130
Capital gains tax	£375
Other taxes on income and wealth	£234
National Insurance Contributions	£9,323
VAT	£11,228
Fuel duties	£2,354
Stamp duties	£716
Tobacco duties	£1,189
Alcohol duties	£996
Betting and gambling duties	£225
Air passenger duty	£275
Insurance premium tax	£258
Landfill tax	£147
Climate change levy	£186
Aggregates levy	£53
Inheritance tax	£278
Vehicle excise duty	£456
Non-domestic rates	£1,916
Council tax	£2,122
Other taxes, royalties and adjustments	£1,535
Interest and dividends	£382
Gross operating surplus	£3,802
Rent and other transfers	£356
North Sea Revenue (geographic share)	£60
Additional Revenue: Defence Spending ¹	£50
Additional Revenue: Relocated Government activity ²	£719
Additional Revenue: Closing the Tax Gap	£3,500
Total Current Revenue	£58,016
Change in Revenue due to independence	+£4,269

¹ Based on a fiscal multiplier of 0.6.

² Based on a fiscal multiplier of 0.9.

Prospective Default Budget for Year One of an Independent Scotland

Fiscal Area	Expenditure (£mn)
Public and common services	£1,395
Diplomatic network, foreign aid and international services	£2,100
Debt interest ¹	£861
Defence	£1,950
Public order and safety	£2,834
Enterprise and economic development	£1,043
Science and technology	£499
Employment policies	£228
Agriculture, forestry and fisheries	£839
Transport	£3,226
Environmental protection	£1,233
Housing and communities amenities	£1,363
Health	£12,175
Recreation, culture and religion	£1,430
Education and training	£7,990
Social protection (excl. pensions) ²	£15,077
<i>State Pension</i>	<i>£7,552</i>
<i>Public Sector Pension</i>	<i>£961</i>
EU Transactions ³	£211
Accounting adjustments	£3,854
Total Expenditure⁴	£66,821
Change in Expenditure due to independence	-£1,760

¹ Based on a “zero option” separation resulting in an initial debt of £50bn and a bond yield 0.5% above average UK rate (Average UK rate of 1.19% measured 18th Dec 2016).

² Subject to separation negotiations, some or all pension liabilities delivered to Scottish residents who have paid UK National Insurance prior to independence may remain payable by rUK government.

³ Subject to Scotland's relationship with the European Union post independence.

⁴ Including all pension liabilities.

Prospective Default Budget for Year One of an Independent Scotland

Summary	£mn
Total Current Revenue	£58,016
Total Expenditure	£66,821
Deficit	-£8,805
Notional GDP	£159,049
Deficit to GDP Ratio	5.54%
Debt to GDP Ratio	31.44%

THE WHITE PAPER PROJECT

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COMMON WEAL POLICY



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