

Document 1

From: [redacted – personal information]
Sent: 16 January 2023 17:08
To: Higgins K (Kate) <Kate.Higgins@gov.scot>; Crawford E (Ewan) <Ewan.Crawford@gov.scot>
Subject: FW: IMPORTANT SUBMISSION ON CURRENCY

Hi both,

As I understand it, [redacted – personal information]. As a result, it may be useful for you to see the attached correspondence and proposed response.

I intend to issue this response on Thursday afternoon to ensure the 20-working day deadline is met. If you have any comments, please let me know before then.

Many thanks,
[redacted – personal information]

[redacted – personal information]
Constitutional Futures Division
Constitution Directorate
The Scottish Government
2W, St Andrew's House, Edinburgh, EH1 3DG

From: [redacted – personal information]
Sent: 16 December 2022 10:06
To: [redacted – personal information]; [redacted – personal information]
Cc: [redacted – personal information]
Subject: FW: IMPORTANT SUBMISSION ON CURRENCY

Hi [redacted – personal information] – I suggested popping this on MiCase for an answer – so just flagging up it may be coming your team's way.

Happy to help thinking about how to answer (also added [redacted – personal information] as it's on the currency side) and ultimately if we decide to respond directly we can always ask to have it taken off the system.

Hope that's all ok

[redacted – personal information]

.....
[redacted – personal information]
Constitutional Futures Division
[redacted – personal information]
Mondays, Tuesdays, Thursdays and Fridays

From: [redacted – personal information] **On Behalf Of** Deputy First Minister and Cabinet Secretary for Covid Recovery
Sent: 16 December 2022 10:02
To: [redacted – personal information]; [redacted – personal information]; [redacted –

personal information]

Cc: Deputy First Minister and Cabinet Secretary for Covid Recovery

<DFMCSCR@gov.scot>

Subject: FW: IMPORTANT SUBMISSION ON CURRENCY

Morning all,

We've received this piece of correspondence from [redacted – personal information]. Would you be able to let us know if this needs to go onto MiCase to be processed, or if you're happy to deal with it at your end?

Many thanks,

[redacted – personal information]

From: [redacted – personal information]

Sent: 15 December 2022 08:11

To: [redacted – personal information]; [redacted – personal information]

Cc: Cabinet Secretary for Finance and Economy <CabSecFE@gov.scot>

Subject: IMPORTANT SUBMISSION ON CURRENCY

Dear SNP MP/MSP/Scottish Ministers and senior advisers

URGENT: SUBMISSION TO SCOTTISH GOVERNMENT FROM [redacted – personal information]

Please find attached a submission to the Scottish Government from [redacted – personal information] which sets out our comments on the currency proposals in the recent Scottish Government paper entitled 'A stronger economy with independence' published in October 2022.

NOTE FOR CONSTITUENCY OR PRIVATE OFFICES: Please bring this important submission and annexes to the personal attention of your Minister/MP/MSP as soon as possible. We are issuing it in electronic form to all SNP MPs and MSPs (together with key civil servants/Special Advisers and others who received our earlier submission on currency) before Christmas in the hope and expectation that it will provide useful reading material over the festive period!

Please note that our submission is intended to be a helpful and constructive response to the recent Government paper. We strongly support the Government policy set out in the paper to introduce a separate Scottish currency (the Scottish Pound) as soon as practical following formal independence. However, we believe other aspects of the currency proposals have serious flaws in terms of both the economic and political risks entailed.

For example, retaining sterling after independence would undermine the achievement of desirable economic policy goals, and attract further criticism during the campaign for a Yes vote from unionist economists whose attack has been focussed on 'sterlingisation'.

Moreover, there is a serious risk that, unless Scottish Government policy is amended, the UK Government or Bank of England could indicate for tactical reasons during the campaign that they would not co-operate in maintaining bank payment systems in Scotland involving the continued use of sterling even for a limited period after independence.

A key point is that the current Scottish Government should consider our strong recommendation that it is their responsibility to undertake all the necessary preparatory work

in advance of independence day to enable the first fully self-governing Scottish Government to be in a position to issue a Scottish currency on day one, should economic and political circumstances, in their judgement, require it.

We would of course be very happy to answer questions or discuss any aspect of our submission in confidence with the Scottish Government and other recipients. If anyone would be interested in taking part in one of the Zoom meetings we plan to host in the New Year, please let me know.

Yours sincerely,

[redacted – personal information]

Document 1.1 – Attachment to document 1. Please note that document 1.1 is a letter sent to the Scottish Government by a private individual. It does not contain or reflect the Scottish Government’s position on these matters.

[redacted – personal information] - **SECOND SUBMISSION TO SCOTTISH GOVERNMENT**

Key Points

This is a further submission from [redacted – personal information] to the Scottish Government which comments on the currency proposals in the recent Government paper ‘A stronger economy with independence’. While we welcome the commitment to introducing a Scottish Pound ‘as soon as practicable’ after independence, we believe other aspects of the proposals contain serious flaws which, if not remedied, could jeopardise realisation of the commendable ambitions set out in the paper. Our key points and recommendations are as follows:

- **The present Scottish Government should acknowledge that it cannot (and should not try) to tie the hands of the post-independence Scottish Government by setting out criteria or requirements for the timing of the introduction of the Scottish Pound.**
- **Moreover, if the prospectus for the next referendum or election plebiscite were to propose that Scotland should keep sterling for a significant time following independence, there is a serious political risk that a hostile UK Government could for tactical reasons announce prior to the vote that it (or the Bank of England) would not co-operate in making the necessary bank payment arrangements.**
- **The priority of the present Scottish Government should be put in place all arrangements prior to formal independence to ensure that the post-independence Government has the option to introduce the Scottish Pound immediately or very soon after independence should it decide to do so. This is feasible, but will require the early establishment of a Scottish Central Bank and intensive associated work in conjunction with external partners during and possibly starting before the transition period which would follow a Yes vote.**
- **The present Scottish Government should also undertake a major publicity campaign as a matter of urgency prior to the plebiscite to raise awareness amongst ordinary people of the economic and social benefits of a Scottish Pound and to reassure them on frequently asked questions.**

Background

[redacted – personal information], this is a further submission to the Scottish Government containing comments by [redacted – personal information] on the currency proposals in the Government paper ‘A stronger economy with independence’ (October 2022). In her foreword to the Government paper, the First Minister states that the publication is not the last word on the matter and welcomes all contributions to the debate. We hope that our comments will be considered as the prospectus for the planned independence referendum or electoral plebiscite is further developed. While we believe the Government paper, along with others in the ‘Building a New Scotland’ series, contains much useful material on the compelling case for Scottish

independence and the economic opportunities this will bring, there are also serious flaws. Our comments below are confined to the paper's coverage of currency issues since this is the area where we have greatest expertise. [redacted – personal information]

General Comments

We welcome the Government's statement that a new Scottish currency (the Scottish Pound) should be introduced 'as soon as practicable' after independence. This is in line with previously-established SNP policy and the recommendations in our earlier submission. However, we believe that the Government paper should recognise that decisions on the precise timing for establishing the new currency, and whether it should be pegged to another currency for an initial period, will be made not by the present Government but by the future post-independence elected Scottish Government, according to circumstances at the time. That post-independence Government, the composition of which is unknown, will be in the best position to take decisions on timing and on the criteria which should guide its judgements. The present Scottish Government cannot (and should not attempt to) tie the hands of the post-independence Government. This distinction is made in other parts of the Government paper, but unfortunately not in relation to decisions on the introduction of a new currency. The priority of the present Government should rather be to ensure that arrangements are put in place prior to independence to ensure that the post-independence Government has all options open to it, including immediate introduction of the Scottish Pound should that be its decision.

The present Government should therefore clarify that the views it has set out in its paper on the timing of the introduction of the Scottish Pound, and the criteria for doing so, are simply the views of the present Government, and acknowledge that it will be for the future post-independence Government to take its own decisions on these and other matters. We also believe, as argued in our previous submission, that this policy stance is tactically the most robust in terms of responding to unionist attacks during the referendum campaign.

Advantages of a Scottish Currency and Risks in Using Sterling

While it will be for the post-independence Government to take its own decisions on these matters, we believe that recent and prospective developments (on which we enlarge below) further strengthen the need for an independent Scotland to have the option of introducing its own currency at the earliest opportunity.

The main advantages of Scotland having its own currency (the Scottish Pound) after independence were set out in our earlier submission:

- Maximum control by the Scottish Government over the levers of monetary as well as fiscal policy to manage the Scottish economy in an integrated way in the interest of people and companies based in Scotland. Without a Scottish Pound (even with a Scottish Central Bank owned and controlled by the Scottish Government), vital economic policy instruments such as interest rates, the money supply, and foreign exchange rates would be substantially under the control of other countries or financial institutions, making integrated and effective economic policy decisions for Scotland difficult or impossible.

- Owning our own sovereign currency will represent a valuable asset to the Scottish economy. It will provide the Government of an independent Scotland with maximum flexibility to make liquidity available to fund programmes of public investment to tackle priorities such as the climate crisis, public health emergencies, progressive policies to tackle Scotland's social and economic problems, and investment in new industries and infrastructure. With our own currency, borrowing to meet these challenges need not involve incurring debt in foreign currencies. There would also be increased scope (if a Scottish Government wished) to pursue unconventional monetary policy measures such as those adopted by the UK Government in response to the Covid crisis in 2020-21 whereby substantial tranches of Government debt were acquired by its own central bank. The Scottish Government would also be able to combine debt issue and open market operations to ensure the continuing liquidity of private sector financial institutions.
- Adoption of the Scottish Pound is necessary if Scotland is to re-join the EU. If, as the Government paper suggests, the prospectus for independence includes a commitment to apply to re-join the EU at the earliest possible date, the post-independence Government should certainly have the option to introduce the new currency without delay.
- These advantages should be contrasted with the corresponding disadvantages of an independent Scotland retaining the Pound sterling. Interest rates and other important aspects of monetary policy would be controlled by the Bank of England without necessary regard to Scotland's interests. Since a post-independence Scottish Government, like most other Governments, will likely run a substantial fiscal deficit, financing that by borrowing in Pounds sterling would create a high level of foreign debt which could severely limit Scotland's economic policy choices. Also, a country without control over its own currency would not meet the criteria for re-joining the EU.

Recent events and economic research reinforce the advantages of a Scottish Pound and the risks of retaining sterling, even for a limited period. In the last few months, following the Kwarteng 'mini-budget' in September 2022, the Pound sterling has been subject to considerable volatility on the foreign exchange markets. It is also the case that the value of sterling reflects a significant 'financial centre premium'. These factors reduce the attractiveness of Scotland using sterling after independence, or indeed of the Scottish Pound being pegged to sterling in the longer term.

In contrast, many economists believe that the world is entering a period where, irrespective of previous ideological positions, Governments will need to take the lead in addressing global challenges such as climate change, wealth and income inequality, and public health crises – which cannot be tackled effectively by free markets alone; and that Governments will increasingly look to unconventional monetary policies only available to Governments with their own currencies to support major public investment programmes. For example, Dr Iain Hardie of Edinburgh University has highlighted the increasing role of Central Banks as 'buyer of last resort' for Government bonds; while the experienced international market strategist Russell Napier has argued that the next 20 years will see continuing inflation, financial repression to reduce debt levels, and a substantial increase in Government-directed capital investment involving use of Government credit guarantees to commercial banks (which represent only a contingent liability for Governments).

These recent and prospective developments, along with other opportunities such as the potential to use pension funds to drive productive investment in Scotland at a lower capital cost, greatly strengthen the case for early introduction of a separate Scottish currency.

We recognise of course that the introduction of a new currency must be planned carefully and that both citizens and financial markets need to be confident that the Government is aware of the risks involved and has contingency plans in place.

Equally, the additional monetary powers that a sovereign currency allows must be used responsibly with due regard to the constraints on monetary expansion.

Nonetheless, a proper regard for caution and responsible management in relation to these matters should not be seen as a reason for avoiding decisive action when the circumstances are judged to be right and when the advantages of a Scottish Pound are so clear. Hesitation and delay bring their own risks.

Currency Priorities for Present Scottish Government prior to Independence

As outlined above, the key role of the present Scottish Government in relation to currency during the transition phase between a Yes vote and formal independence (or even starting before the transition phase) should be to ensure that all necessary arrangements have been made so that the post-independence Government is able to implement whatever currency policy it chooses to pursue when it assumes power. That should certainly include the option of introducing the Scottish Pound immediately or very soon after formal independence. This is entirely practicable and fully consistent with a carefully planned and managed process. Indeed, if work were started now, it might prove useful in preparing for a plebiscite election. It will require the following steps to be taken:

- Establishment of a **Scottish Central Bank (SCB)**, owned and controlled by the Scottish Government. The precise status, functions, and any mandate or degree of operational independence of the SCB would need to be confirmed. It will require appropriate staff and financial reserves - although substantial sterling reserves will be generated automatically through the process of exchanging sterling for Scottish Pounds when those with existing sterling accounts who wish to set up new accounts in the Scottish currency do so. International agreements may also be required. Establishment of a Central Bank, and completion of these transitional steps, usually takes 3-5 years, and we recommend the appointment of a programme team in good time before independence. By the end of the transition phase, the SCB will, amongst other tasks, need to have designed and produced Scottish Pound notes and coins; and to have developed an electronic domestic bank payments system to operate efficiently alongside sterling and EU systems. Considerable work and liaison with external parties (eg IMF, Bank for International Settlements, ECB, BoE) will be needed to establish this and related arrangements. Preparations will also need to be made in parallel for a UK sterling payments system should sterling be retained for a short period prior to the introduction of the Scottish Pound. The relationship between the SCB and BoE during this period would need to be clarified.
- An expanded **Scottish Government Treasury or Finance Department**, including a Debt Management Office and staff to cover the new functions of an independent State.
- Establishment of a **Scottish Financial Authority**, a wholly owned subsidiary of the SCB which, with the SCB, will regulate Scottish retail banks and be responsible for regulation of other parts of the financial sector in Scotland. These regulations should seek to ensure no recurrence of the

behaviour and errors which led to the financial crash of 2008 (see our earlier submission), and build on the work of the BoE's Financial Policy Committee to manage the risk of a systemic failure of the payments system.

- An expanded **Scottish Fiscal Commission**, responsible to the Scottish Parliament, to produce independent forecasts of the Scottish economy and assist in scrutiny of fiscal and monetary policy.
- Almost certainly the establishment of a **Scottish Stock Exchange**, which would have an important role in creating a market in Scottish Government bonds as well as raising equity capital for Scottish companies.

If the option of using the Pound sterling as Scotland's currency for a significant period after independence were to be retained, as apparently favoured by the present Scottish Government in its recent paper, considerable work will also be required. In particular, it would seem likely that UK Government/BoE co-operation will be required to enable a domestic bank payments system to operate. **This runs the real risk of the UK Government stating in advance of the referendum that it (or the BoE) would refuse to co-operate (as it did in 2014 in relation to the proposed currency union). Such a possible scenario makes it imperative that a bank payments systems for use of the Scottish Pound should be ready as a contingency plan (while the latter may also be easier with BoE co-operation, the risk of refusal seems small under this option).**

Finally, we would recommend – now that Government policy is to introduce a Scottish currency as soon as practicable after independence – that the current Scottish Government should as a matter of urgency be proactive in promoting the considerable benefits of a Scottish Pound to a sometimes sceptical public, many of whom may have an understandable if uninformed emotional attachment to sterling. People need to be reassured about how a Scottish Pound would work and what it would mean for their bank accounts, pensions, and mortgages. [redacted – personal information] (reproduced at Annex 2) covering frequently asked currency questions and this could be the basis of an information campaign. Far better in our view to get on the front foot rather than be put on the defensive by unionist critics. Even if the post-independence Government were to decide to delay the introduction of the Scottish Pound, there is still a pressing need to educate the electorate about the manifold advantages of moving away from sterling in due course. [redacted – personal information]. Just as constitutional change is not an abstract concept which distracts from present-day priorities (as the false narrative of unionist critics would have it), the Scottish Government should be demonstrating that having our own currency is the key to improving the lives of ordinary people, for example through improving pensions and reducing electricity costs.

Conclusions and Recommendations

While the Government paper is welcomed for its outline of how Scottish independence will enable a stronger, fairer, and greener economy to be built, the proposals on the timing of a new currency are concerning as they risk undermining the achievement of these desirable economic objectives and could indeed jeopardise the outcome of the referendum.

Our primary concern is that they represent the current Scottish Government position and do not adequately recognise the wider perspective, one in which the first post-independence elected Government may have a differing view.

As such we have three key recommendations:-

1) The present Scottish Government should recognise its responsibility to ensure that the option of immediate or very early introduction of a Scottish Pound is available to the post-independence Government when it assumes power. This will require considerable work, in conjunction with external parties, during and indeed if possible before the transition phase following a Yes vote. The necessary steps are as listed above.

2) We also believe that the current proposals do not adequately recognise the present very real risk that, by continuing to advocate that sterling should be retained for a significant period following independence, the UK Government could well state, in advance of the referendum vote, that it will not co-operate in supporting the proposal and making the necessary bank payment arrangements (analogous to what happened in 2014 in relation to the proposed currency union).

3) The present Scottish Government should also plan a publicity campaign in the near future to raise awareness amongst ordinary people of the economic and social benefits of a Scottish Pound and to reassure them on frequently asked questions. It is not too early to begin this – now that the Government's policy is to establish a Scottish currency as soon as practicable after independence.

We are of course very willing to answer questions or discuss any aspects of these comments with the Scottish Government or other recipients.

[redacted – personal information]

December 2022

Annexes

Annex 1: [redacted – personal information]

Annex 2: [redacted – personal information]

References

[redacted – personal information]

Iain Hardie: 'Twenty-First Century Central Banking and an Independent Scotland's Currency Choice' (October 2022)

Russell Napier: 'We Will See the Return of Capital Investment on a Massive Scale' (The Market NZZ, October 2022)

[redacted – personal information]

Document 1.2 – Attachment to document 1.

DIRECTORATE FOR CONSTITUTION AND CABINET
DCAC : Constitutional Futures Division

[redacted – personal information]

Our Reference: 202200335712

16 January 2023

Dear [redacted – personal information],

Thank you for your correspondence to the Scottish Government dated 15 December 2022. I work in the Scottish Government's Constitutional Futures Division and have been asked to respond.

I would like to thank you for sending the comments on behalf of [redacted – personal information]. [redacted – personal information] views on these matters have been noted as we continue our work to produce the prospectus for an independent Scotland.

As stated in your submission, we propose to establish a Scottish pound as soon as practicable through a careful, managed and responsible transition. The decision about when to do this would be taken by the Scottish Parliament, guided by transparent criteria and economic conditions, rather than a fixed timetable.

As set out in our publication, decisions about the Scottish pound would also be made by the elected government and parliament at that time. Those would include the precise form of the currency regime for a Scottish pound - for example, a fixed or floating exchange rate - informed by analysis and advice from the Scottish Central Bank.

I hope you find this response helpful.

Yours sincerely

[redacted – personal information]

CFD : Programme and Briefing

Document 2

From: [redacted – personal information]

Sent: 07 February 2022 14:37

To: Crawford E (Ewan) <Ewan.Crawford@gov.scot>; Nicolson S (Stuart) (Special Adviser) <Stuart.Nicolson@gov.scot>; [redacted – personal information]; [redacted – personal information]; MacInnes J (John) (Special Adviser) <John.MacInnes@gov.scot>

Subject: Re: Glenn online

[redacted – free and frank views]:

[redacted – information otherwise accessible]

[redacted – free and frank views]

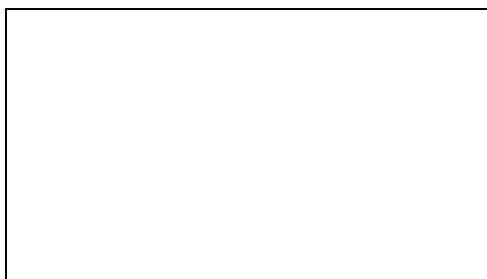
From: [redacted – personal information]

Sent: 07 February 2022 13:43

To: Ewan.Crawford@gov.scot <Ewan.Crawford@gov.scot>; Stuart.Nicolson@gov.scot <Stuart.Nicolson@gov.scot>; [redacted – personal information]; [redacted – personal information]; John.MacInnes@gov.scot <John.MacInnes@gov.scot>

Subject: Glenn online

<https://www.bbc.co.uk/news/uk-scotland-scotland-politics-60287785>



[Turning up the volume on the independence debate - BBC News](https://www.bbc.co.uk/news/uk-scotland-scotland-politics-60287785)

With all the turmoil in Downing Street over the partygate scandal, it's easy to forget that there is much, much more going on in our politics. Among the biggies: Covid recovery, the threat of ...
www.bbc.co.uk

Section 38(1)(b) – personal data of a third party

An exemption under section 38(1)(b) of FOISA (Personal Information) applies to some of the information requested because it is personal data of a third party and disclosing it would contravene the data protection principles in Article 5(1) of the General Data Protection Regulation and in section 34(1) of the Data Protection Act 2018. This exemption is not subject to the ‘public interest test’, so we are not required to consider if the public interest in disclosing the information outweighs the public interest in applying the exemption.

Section 30(b)(ii) – Free and Frank Exchange of Views

An exemption under section 30(b)(ii) of FOISA (Free and Frank Exchange of Views for the Purposes of Deliberation) applies to some of the information requested. This exemption applies because disclosure would, or would be likely to, inhibit substantially the free and frank exchange of views for the purposes of deliberation. This exemption recognises the need for a private space within which to discuss issues and options before reaching a settled public view. Disclosing the content of these discussions will substantially inhibit such discussions in the future, because individuals will be reluctant to provide their views fully and frankly if they believe that those views are likely to be made public. This would significantly harm the Scottish Government’s ability to carry out many aspects of its work, and could adversely affect its ability to gather all of the evidence needed to make fully informed decisions.

This exemption is subject to the ‘public interest test’. Therefore, taking account of all the circumstances of this case, we have considered if the public interest in disclosing the information outweighs the public interest in applying the exemption. We have found that, on balance, the public interest lies in favour of upholding the exemption. We recognise that there is a public interest in disclosing information as part of open, transparent and accountable government, and to inform public debate. However, there is a greater public interest in allowing a private space within which to communicate as part of the process of exploring and refining the Government’s position. This private space is essential to enable all options to be properly considered, so that good policy decisions can be taken based on fully informed advice and evidence. Premature disclosure is likely to undermine the full and frank discussion, which in turn will undermine the quality of the policy making process, which would not be in the public interest.