How to Start a New Country

How to Start a New Country

a practical guide for Scotland

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A note from the author

This book and the work behind it have taken up much of the last 18 months of my life – but it is almost all based on the work of others. Common Weal has relied on the invaluable support and contribution of an enormous number of people in many different fields of life in Scotland. They have written policy papers for us, written detailed notes for us to work from, sat patiently with me talking me through subjects as diverse as professional approaches to complex project management to the intricacies of EU trade law. I have had to learn the meaning of concepts from Transmission System Operators (the organisation that manages how electricity flows round the national grid) to 'roulement cycles' (a military strategy for troop rotation). It has been one of the most intense and enlightening projects I have ever had the pleasure to be involved in.

In writing this book I have tried to take the many expert pieces of work and fit them together into a coherent plan for creating an independent nation state. This has meant some slight adaptations in detail and creating some new solutions for managing the process. One of the most difficult things for me has been always to stick to the brief of not projecting into the work my own hopes for a more innovative, radical future for Scotland and instead present (as best as possible) a 'future neutral' option which largely leaves innovation and radicalism for the years after our independence day. In trying to do all this it is my sincere hope that I have accurately captured the meaning of what the many experts have told us must happen (and in most cases the text of the book has been checked with those experts). Any failures to capture that meaning properly are mine alone, as is the blame for any errors in how things have been phrased or summarised. So while I am the author of the words in this book, I do not truly consider myself to be its author but more honestly its editor.

It has been a privilege and (at many points) a pleasure to have had this opportunity – though if I never again have to try and disentangle some issues like the complex web of European Union regulations I shall be grateful. Writing it has helped me to understand much better the mechanics behind my long-standing belief in Scottish independence. It has been sobering to realise just how much needs to be done and the overwhelming need for good preparation and effective management of the transition to independence. But perhaps above all, it has galvanised my belief that this is an opportunity we should grasp. Between the lines of the detail I have seen emerging a picture of a future nation state of which I very much want to be a citizen.

I hope that, whatever your political or constitutional belief, this work will be taken in the spirit in which it is intended. And I hope that it will prove useful to you as you think for yourself about the options for Scotland's future.

Robin McAlpine

With sincere thanks to...

I fear that in trying to produce a list of names of all the people who have helped to make this project possible I will inevitably omit someone given how many people helped with advice and other kinds of support. However, I do wish to offer very sincere thanks to the following people:

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Finally, I can't give enough thanks to Common Weal's Head of Policy Ben Wray and Head of Research Craig Dalzell who did so much of the work behind this book. I also want to thank Head of Campaigns Max Wiszniewski for all his help and, of course, to our Operations Manager Tiffany Kane without whom nothing would work...

Introductory notes

The purpose of this book is to explore the practical steps that Scotland would have to take if it wanted to become an independent country. It will take as its starting point the day after a referendum at which a majority of the population of Scotland have voted for that independence. It ends, three years later, on Scotland's independence day.

But it is perhaps as important to explain what this book is not. It is not a final statement of the precise series of actions which would be necessary. Inevitably, there are some things we simply cannot know. Perhaps foremost among those (at the time of writing) is the enormous uncertainty about the UK's relationship to the European Union once the Brexit process has been completed. This will have substantial consequences for a whole range of trade and regulation issues – the closer the UK remains to the European Single Market, the easier it will be to resolve this range of policies. And of course there are economic factors which change constantly and so may well not be the same in three years as they are now. So this book could not be the final word, even if it sought to be; the world will change between now and Scottish independence and as it does, so will the steps Scotland needs to take on its path to full nationhood.

Nor is this book intended as a final word on the exact shape and nature of an independent Scottish state. It is based on the work which has been done as part of Common Weal's White Paper Project. While this project set itself the demanding aim of being as 'future neutral' as possible (ensuring that different political futures are equally possible in setting up new systems), it is impossible not to bring principles, prejudices, preferences and other baggage to the task. This book envisages an internationalist Scotland set up on the basis of liberal human rights and within the European model of a social democratic welfare state. That in itself means it may not be exactly the model of an independent Scotland every person who votes for independence envisages.

But even within that broad model (which has very much been the dominant vision for an independent Scotland) there are many, many variations and questions still to be answered. Those closely involved with the White Paper Project will be very aware of lengthy debates on much of the details. What degree of political independence should a central bank have? Should the financial regulatory function sit with the bank or a stand-alone regulator? How should a bank's governors be appointed – and by whom? Each major task ahead contains within it dozens of questions, and there are few of them which have only one possible answer. Both in terms of broad outline and fine detail, there is plenty of scope to agree with the broad purpose of this book but to have differences of opinion over this aspect or that.

This book is not an attempt to downplay or gloss over the hard work which will be required of Scotland if it wishes to become an independent country. In fact, quite on the contrary, this book seeks to be as comprehensive as is reasonably possible, setting out honestly and transparently the amount of work ahead. The book begins with the assumption that those reading it do so seeking a true picture of what the years after an independence vote would look like. It absolutely does not seek to take a doom-mongering approach of presenting the tasks ahead as torturous or unbearable. It clearly does not present them as insurmountable or unachievable. But it will not pretend that they are negligible or 'matters of mere detail'.

In fact, the driving spirit of this book is that most people, when voting in the 2014 Scottish independence referendum, did not have a clear sense of what the weeks, months and years after a Yes vote would look like. It seeks to be an optimistic book, but it seeks this optimism from an honest assessment of achievable hard work. Throughout, it will aim to be clear about the difference between 'hard' and 'difficult'.

Digging a large hole is hard work, but it does not involve complex skillsets or intricate decision-making. If one decides to dig a hole, it is a matter of determination and commitment, not of complexity. Hitting a target with an arrow, on the other hand, is not particularly taxing work in terms of exertion or time – but it is difficult. It requires skill and practice. Any able-bodied person who wishes to dig a hole will eventually succeed if they work, but not everyone would be able to hit a distant target no matter how much they tried. This book seeks to persuade that establishing Scotland as an independent country will be hard work but that, on the whole, each individual task is not difficult to achieve. It begins from the premise that any nation state which wishes to set itself up as an independent country will eventually succeed, given determination and commitment.

What this book will not seek to do is to suggest that any of this is 'easy'. Often what must be done is straightforward, easy to understand, routine even. But telling people that the route ahead is 'easy', nothing for them to concern themselves about, is the wrong approach. In 2014 Scotland's electorate showed great maturity in how they engaged with an independence debate in which many eventual No voters simply felt unable to make a decision because they lacked an understanding of the road ahead of them if they voted Yes. So this book is an attempt at an optimistic but honest look ahead at that road.

This book is obviously not able to predict, let alone provide guarantees about, how others will behave. It is possible (though unlikely) that the UK, or the EU or the UN would act utterly unreasonably and irresponsibly. It is also possible (and in this case likely going on certain) that they will claim or pretend to be unreasonable and obstructive, either as part of a referendum campaign or as a negotiating tactic in the period after a vote for independence. And it is important to be clear that being irresponsible and unreasonable is entirely the prerogative of these bodies, so long as they remain within the law. So if the remainder of the UK was determined to erect razor-wire fences for the length of the Scottish border and they did so on their own territory, there is nothing Scotland could do about it, just as Scotland would have the right to do the same. If almost all obstructive behaviour is at least theoretically possible it becomes impossible to propose any way forward. This book shall therefore assume a degree of reasonableness from those with whom Scotland is negotiating. This means that while it is not possible to promise what outcomes will be agreed through negotiation, it is possible to propose an outcome which is fair and reasonable to both sides. That is what this book will seek to do.

Finally, what this book is not is an attempt to assuage the more energetic critics of independence. If, fundamentally, you do not believe in Scottish independence or strongly believe in a united Britain, then there are no technical arguments one way or another which are likely to change your mind. And if you are a anti-independence activist then you will no doubt continue to believe that every word on every page of everything ever written by a supporter of independence is false, fatuous, dishonest and stupid. You will continue to claim that Scotland is an aberrant national formation, unlike every other nation which has its own state, and so unable to follow any of the paths or precedents set by those countries. If everyone else needs a foreign currency reserve of a certain level, Scotland will need twice as much, three times as much. Sure, lots of countries which aren't Great Britain have access to BBC programming, but Scotland is different and so won't be allowed. Scotland will be a magnet for foreign invasion so simply couldn't build enough warships to protect itself even if it wanted to.

This book does not believe in 'Scottish exceptionalism'. It does not believe that life will be easier or more forgiving to Scotland than it is to any other nation. It does not believe that the world is waiting to do Scotland a giant favour. It does not believe that Scotland is somehow 'special'. But nor does it believe the corollary – that Scotland is somehow a nation cursed with the inability to exist.

So this book is for two kinds of people. It is for those who believe in Scottish independence but want to understand better how it would happen. And it is for those who are open-minded (even if they begin sceptical) and simply want to be able to make a personal assessment of the merits or otherwise of independence based on an understanding of what would happen next.

Where there is uncertainty, this book will be open about it. It will explain the cause of the uncertainty and make the best assessment it is able to make. Where there are policy or value choices to make, it will explain what choice was made – and what choice rejected. It cannot know the future and so where it is projecting ahead it can only work from where we are now – it will avoid guesswork about what is going to happen and instead behave as if this was all being done now in circumstances we can verify. It is inevitable that there will be some aspects of the finer details of setting up a nation which are not covered here; the book is not intended to be utterly comprehensive but rather to give a clear overview of the main challenges.

So… let us begin. It is Monday morning. At the end of last week Scotland voted in a legally binding referendum approved by both the Holyrood and Westminster Governments. The result was a win for the pro-independence campaign. The weekend has been a celebration (for many at least). Now the proper work must begin.

Becoming real

The first step is both practical and symbolic – and that is to gain legal personality. Legal personality simply means that something is recognised in law as being an entity fit to engage in legal activity. It means that somebody or something is capable of holding legal rights and obligations. A citizens has legal personality – they can hold bank accounts, have recourse to the law, can enter into contracts, can be jailed and so on. A constituted organisation (from a local club to a multinational corporation) has legal personality – they can sue and be sued, can borrow money and be put into liquidation if debts are not paid. A nation state has legal personality – it can enter into treaties, join international organisations, is subject to international law, has the right to set domestic law.

The Scottish Government has legal personality in domestic law but Scotland does not have international legal personality – which means it is not recognised internationally as having the rights and obligations of a nation state. This means that a Scotland which has recently voted to become independent still has no ability to begin to talk to other nations or international organisations. This book proposes a fairly short timescale for achieving full Scottish independence after a successful referendum vote, but to achieve that it must be able to progress a range of issues quickly and in parallel. To do this it will be extremely helpful to be able to begin negotiations with international partners as soon as possible. This is especially the case for discussions with the European Union and potentially the countries which make up the European Free Trade Association (EFTA), but may also be relevant to some trade negotiations, as well as initial exploration of full membership of the United Nations.

It would of course be unreasonable for Scotland to demand status as an entirely independent country without going through the proper negotiations with the remainder of the UK with the aim of achieving an outcome acceptable to all parties. But it is possible for the UK to agree to recognise Scotland as a autonomous nation-state-in-waiting, subject to final negotiations. If this was agreed, it would grant Scotland international legal personality which would in turn make it possible for discussions with international organisations to begin. Ideally, an agreement on this form of legal personality could be agreed before the vote (that the UK would recognise legal personality for Scotland in the event of a pro-independence referendum result). Either way, it should be sought as quickly as possible.

And, of course, this would be an important symbolic moment for Scotland. It would not be the moment Scotland became its own country, but it would be the first moment Scotland was clearly recognised as being on its way to being its own country.

Three years ahead

In 2014 the Scottish Government set out an ambition to make the official date of Scottish independence 18 months after a successful Yes vote. This was acknowledged by many at the time as being potentially an optimistic goal. It was probably achievable, but it could only be achieved through negotiations to share a substantial amount of the UK's infrastructure for an indefinite period after independence. This meant that by far the most substantial element of a post-2014 independence process would have been negotiation.

As well as dividing up and settling assets and liabilities respectively and agreeing international relationships between Scotland and the remainder UK (to be referred to here in the shorthand rUK), Scotland would need to agree a deal for a currency union, access to the Bank of England and protocols around revenue, deficit and macroeconomic policy – as well as a number of smaller sharing deals such as the BBC and the DVLA. This approach avoided some of the more time-intensive tasks that would face a proto-independent Scotland and therefore did reduce the amount of time necessary to reach independence day.

However, this had a number of substantial side effects. First, and most obviously, it meant that while Scotland would be an entirely legally independent nation, it would have chosen to accept a high degree of dependency on another nation state to maintain core national infrastructure. This could be argued to have substantial perceptional impacts – on the one hand appearing to minimise disruption while on the other making an independent Scotland seem substantially less independent than it otherwise would be. In the aftermath of the 2014 campaign there is substantial reason to believe that of these two perceptional impacts the latter was more significant; people do not report a reduction in their level of uncertainty as a result of the 'sharing strategy' but do report a sense that Scotland would have remained overly-dependent.

There are other reasons that reliance on UK institutions can be seen as detrimental to the transition process. Perhaps prime among them are the limitations that would be placed on the fiscal approaches to setting up a new nation with a rUK likely to seek restrictive approaches to borrowing, tax policy, development of the many governmental systems which would interface with or rely on UK systems, the knock-on impact this would have on developing an IT strategy for an independent Scotland and more. In all of these cases, the set-up process for an independent Scotland would be much more flexible if Scotland was to develop self-sufficient infrastructure. Certainly, soon into the existence of a Scottish nation state governments would constantly discover that dependency issues would substantially restrict what those governments could do. It is likely that pressure would grow almost immediately to reduce the restrictions by reducing the dependency.

But there is another equally important issue here – which is that the more you are seeking from negotiations, the weaker your hand in those negotiations. The weaker your hand, the less you will get out of negotiations and the longer they will take, in part because there is more to negotiate and in part because the other party can string things out much longer if they seek to be obstructive or even simply to extract the most beneficial deal possible (or alternatively, set very tight deadlines to put Scotland under maximum pressure to reach agreement). The rUK is unlikely to want to see negotiations for Scottish secession extend indefinitely or be rushed, but there may be real incentives either to slow the process down as much as possible or place arbitrary deadlines on Scotland.

Therefore, throughout this book the approach taken is, as far as possible, to establish Scotland as a fully autonomous nation state in charge of its own infrastructure and core systems and policies in line with most other independent nation states. This means having control over currency, central bank, full taxation systems, international relations with a consular network, a unique citizen identifier (to replace National Insurance numbers) and so on. This does not mean that Scotland would not be a collaborative nation – there are a number of smaller issues where agreeing a non-controversial sharing process may make sense. For example, few would probably find any concern in an agreement to share the UK DVLA if it was felt that this was the easier solution. However, having an alternative option (such as simply being ready to set up our own) would be of great benefit during negotiations.

On other collaborative issues, naturally Scotland will want to participate in an interconnected world. Whether that is access to the European Single Market or full EU membership or joining the many international treaties Scotland would wish to participate in, Scotland, like any other nation state, would voluntarily cede aspects of its sovereignty to international agreements. However, it is primarily assumed throughout that this is done along the lines of other fully autonomous nations – that Scotland is designed to function effectively alone and independently and then cedes aspects of its autonomy to shared agreements. This will put Scotland in a substantially stronger negotiating position throughout the independence process than it would be if it was wholly reliant on these negotiations simply to be viable.

This all strongly suggests a 'maximalist' approach to Scottish nationhood, with proper investment of time, money and effort being put into creating a central bank, a currency, an integrated public IT system and so on. The effect would be to extend the technical set-up period but to reduce both the importance of and the time taken to complete negotiations with rUK (as much less would remain to be negotiated).

This in turn raises the question of what timescale is necessary to complete a proper set-up process for Scottish independence. On the assumption that Scotland does not go into the transition period entirely 'cold' but rather has done a little basic preparation, it should be possible to begin the nation-building process fairly quickly after a referendum (the preparation required will be considered in the next two chapters). It is assumed that the many tasks required to achieve full Scottish independence will run in parallel – while one project team is creating a central bank, another is building a tax collection system and another developing defence infrastructure. Defining the necessary length of a transition period therefore comes down to identifying the most time-consuming of the individual tasks and ensuring that it can be completed in time (allowing for the inevitable interaction with other tasks and perhaps especially the impact on IT systems).

Having looked at all the necessary tasks and assessed the likely timescales required to complete each, probably the most time-intensive is the establishment of a Scottish currency. As we shall see, this requires the creation of a digital version of the currency, a central bank, new payment systems, the production of printed money and its distribution and the replacement of Sterling, among other tasks. A lot of this work is perhaps the definition of 'hard, not difficult'. For example, all vending machines need to be adapted to take the new coinage. This is time-consuming. However, this is a task that is completed UK-wide on a regular basis every time the UK issues a new or replacement coin (at the time of writing one of these processes remains ongoing as the UK adapts to the introduction of a new design of pound coin). There is very well established expertise on how this is done – there is nothing mysterious about it.

Of course other aspects of currency set-up do fall into the more difficult category – the creation and management of foreign currency reserves will require more technical skills and specific knowledge. But even here we're dealing with technical skills which are fairly widespread and well-understood. As we shall see, achieving this task and many others like it is primarily a recruitment issue of finding the right people with the right skills to complete the work.

Taking into account each of the stages which would be required to set up and transition to a Scottish currency (to be explored in depth later in this book), a period of three years appears achievable (though is not overly generous). There appears to be no other major aspect of the process of achieving independence which cannot be achieved in the same timescale – other than negotiations to join various international organisations which may take longer but which do not hamper the process of reaching independence day. It is therefore proposed that Scotland should set a tight but achievable timescale of three years from the start of independence-building to the day that Scotland announces its final independence. How quickly the independence-building process can begin is purely down to preparedness and focus – if a reasonable amount of work is done in advance of an independence referendum such that a number of strands of project work are ready to go in the event of a vote in favour, there is no reason processes could not start shortly after the vote is cast.

However, there is one final factor which should be at the forefront of our minds throughout this; the success of Scottish independence will depend in large part on how well we achieve the building process. It might well prove faster simply to hand over the process of setting things up to a large 'accountancy consultant' like KPMG or PwC. They might be able quickly to knock up exactly the kind of failing corporate-friendly tax and monetary systems which Scottish independence is an opportunity to leave behind. There are no end of reasons why this approach should not be taken. Impatience will simply not make Scotland more independent – in fact, it is almost certainly the case that more haste will mean less independence. It is also crucial that Scotland is designed in the interests of its citizens and not the corporate clients of an international consultancy company. Replicating the failings of the UK is not the vision many people have for an independent Scotland.

But there is a final, very compelling reason that this approach should not be taken. If Scotland is to become independent it will require a substantial investment in time, effort and money. If the profile of the spend of this money and the impact of the investment in time and effort is geared towards parachuting in predatory international corporations, the value of the investment will be captured by those corporations and expropriated for the financial benefit of their shareholders. In that model, the money spent by Scotland establishing itself as a new nation will be lost to Scotland. It will create substantially less economic benefit here, it will not allow anything like as many Scottish businesses to grow and establish themselves, the skills which are developed in the independence-building process will not be Scotland's skills but the imported skills of a multinational.

It is important that in the early years of Scottish independence there is successful economic performance. This will coincide with a period where Scotland will be spending substantial amounts of money on a once-in-a-lifetime project of a scale the nation hasn't seen in many years. If these two processes – the building of a post-independence Scottish economy and the investment in building the infrastructures and systems of a new Scottish state – are not coordinated, each to offer the maximum benefit to the other, they must be managed not as tendered service contracts but as a core national project. Getting this process right will mean that the money spent to create a Scottish state acts as a very substantial direct investment into the Scottish economy during a period where that investment will be particularly important. If we can source the maximum volume of the work and workers required to create this state in Scotland, for Scotland, the process of state-building could be one of the most substantial Keynsian demand-side stimulations seen in a generation.

There are thousands upon thousands of jobs to be created in creating this new Scotland; the economic development potential this represents must be taken seriously and managed carefully. To spend all the money Scotland is going to spend and not see a real boost in the Scottish economy would be first-order negligence. Time and care must be taken in the run-up to the three-year building process and throughout those three years to ensure that every penny of value that can be retained in the Scottish economy is retained.

Keeping things moving

Everyday life does not cease just because Scotland has decided to go for independence. Throughout the three years that will be required to achieve independence, children will still require to be educated, patients cared for, policing managed and overseen, roads repaired, bins emptied. The work involved in creating a Scottish state should not be underestimated. If we do this right, it will involve a very big investment in time, effort and focus. But, for a generation of Scots, this focus on the future cannot be at the expense of the focus on their lives and needs. It is therefore important that we find a way to manage successfully three aspects of the overall governance of Scotland at the same time.

The first is the business of domestic politics. At whichever point the referendum is held, there will be an incumbent Scottish Government which has stood on the basis of a manifesto stating what it will do with Scotland's devolved powers. That government will have a democratic mandate over education, health, transport, criminal justice and so on. However, that government will have no mandate over subjects which are currently reserved at Westminster – such as much tax and macroeconomic policy, foreign policy, defence, most of social security and so on. There is a separate government which has a mandate over those issues, which is the one elected at a UK General Election. Eventually, on full independence, decisions about all those currently reserved matters will come under the jurisdiction of Holyrood. At that point all policy – currently devolved and currently reserved – will fall under the remit of the Scottish Government of the day.

There is an important democratic principle in this transition; a government should not wield broad powers over policy areas without a clear mandate. An individual voter's decision over which government to vote for to look after health and education in a devolved parliament inside the UK system might not be the same decision they would make on which government they trust with wide tax-raising powers, the right to start wars, the power to set unemployment benefit. There is only one democratically acceptable way to deal with this contradiction and that is to hold elections based on the full powers of an independent Scottish Parliament either soon before or soon after independence day (of which the latter makes more sense). At those elections political parties can set out their proposals for how they will use all the powers available to them and electors can make a judgement on that basis. It is therefore proposed that elections for the first government of an independent Scotland be held within not more than six months of independence day.

The implications of this for the three-year process of state building depend on when the election cycles fall. It is possible that the set term of a Scottish Government already covers the entire three-year period, meaning that the existing Scottish Government (at the time of a referendum vote) already has a full mandate to remain in power for the full three year period. However it is also possible that the term of that government would naturally end during that three year process. It is difficult to see any merit in holding a major set of elections during the transition period, given that there are going to be full national elections immediately after independence. The most obvious solution to this is simply to extend the term of whichever government is in power at the time of a referendum vote.

This would probably be uncontroversial in the event that this meant an extension of an extra year or so. It might be more contentious if the existing government was right at the end of its fixed term at the time of a referendum vote. There are circumstances in which this would mean a government being in power for a full eight years based on one election. Particularly if for any reason this was a government which had lost popularity or lacked public support, it might be more difficult to gain public or political support to extend that administration for a further three years. Any outcome would need to be negotiated and agreed by all political parties sitting in the Scottish Parliament at the time of an independence vote. If there was real opposition to extending the term of an individual government there might need to be an exploration of some form of 'national government' or coalition for the transition years. It is difficult in advance to predict exactly the means of ensuring continuity government for the extended period of transition simply as a factor of electoral timing issues. However, a devolved government with continuing responsibility for devolved policy matters must be ensured. It would be for that government to maintain and indeed improve all public services for a transition period.

There are also some unknowns in relation to the UK Government over this period. It might well be that a UK Government has been elected with a mandate to serve for all three years of the transition period. If so, that government would retain power over all reserved matters for the transition period. However, it would be expected that no policy actions would be taken during that period which would prejudice or substantially change the circumstances a soon-to-be independent Scotland would inherit. To this end, a date would be established prior to the independence referendum which would be taken to represent ‘the status quo’. That date might be six months or one year prior to the actual vote. This would prevent a hostile Westminster government from sabotaging Scotland’s interests either in negotiations or for the early days of independence. For example, if a UK Government proposed changing the designation of assets from being national (to which Scotland would be entitled to a share) to being England-only (meaning Scotland would not be entitled to a share), then this would be overruled on the basis that at the date given for baseline comparison (the date to be taken as the moment of ‘status quo’), those assets were designated in the former way. This prevents undue interference in a fair and equitable secession process.

But it is equally the case that a scheduled UK General Election could fall during the three year transition process. This would create anomalies in whichever way it was handled. For example, if there were UK elections with only a year to go to Scottish independence day, it might be sensible for Scotland not to take part in those elections. This would mean that for a period Scotland’s reserved matters would be run by a government over which Scotland had no say.

On the other hand, if Scotland did take part in those elections, that democratic anomaly would disappear only for another to occur. Because while Scotland would then (perhaps only for one year) have a say in the last Westminster government to rule over it, immediately after Scottish independence that government would lose 56 of its MPs as Scottish MPs withdrew from parliament. If there were substantial different voting patterns in Scotland and England during that election, this could lead to the fall of one government only a matter of months after it was formed. For example, if Labour was elected with a narrow majority based on Scottish votes, it would fall once those Scottish representatives withdrew. A potentially even more anomalous outcome would be if SNP MPs were supporting a coalition government at Westminster, which would mean that there would be a strong possibility that the same political party would be nominally part of both sides of the negotiating table, which is clearly not appropriate. Without knowing the exact circumstances and timings involved it is very difficult to provide a single, comprehensive solution to this issue.

Whatever the resolution to these issues turned out to be, they would ensure that there would be administrations in London and Edinburgh which would continue to manage the full range of policy matters during the transition period – Westminster and its agencies continuing to manage reserved matters, Holyrood and its agencies managing devolved ones. However, it is inevitable that there will be issues which crop up in either parliament which could have a substantive impact on independence negotiations, the process of building up a Scottish state or the autonomy and viability of an emerging Scottish state. As a matter of good government it would therefore be wise to establish a transition committee made up of representatives of the Scottish and UK governments (and potentially also of parliamentarians from non-government parties). This committee would examine, negotiate and coordinate on any issues emerging which were identified as 'problem issues'.

These arrangements would ensure that two of the three major political and governmental tasks required of a transition period were fulfilled – maintaining both devolved and reserved government. Let us turn our minds now to the third task.

Getting things done

There are a lot of individual tasks and projects which must be completed and delivered to achieve Scottish independence – creating new government departments, establishing a new currency and central bank, negotiating with various international partners. It would be unwise to underestimate the volume of work required. Scotland has an effective civil service, but there are three very important aspects to that civil service which must be understood. First, the 'Scottish' civil service is not a separate entity from the UK civil service but rather is simply the UK civil service in Scotland. The nature of the civil service has changed since devolution and the lines of responsibility for Scotland increasingly terminate in Scotland, and more of the HR function for Scotland is managed here.

But there is limited policy control over the civil service in Scotland. This means that in the inevitable event of there being elements of conflict of interest between a developing Scottish state and the existing UK state, civil servants in Scotland are put in a difficult position. For example, unless there were some sort of immediate structural change, the UK civil service would be facilitating both sides of the negotiations over Scottish independence – a civil service effectively negotiating with itself.

A second issue is that there is a range of very important tasks to be completed for which the Scottish civil service simply doesn't have the specific skills. For example, since Scotland has virtually no influence or policy involvement in monetary policy which is handled exclusively in London there is little expertise in the policy issues involved in setting up and running a new currency. Finally, it is simply not the case that Scottish civil servants are sitting around, twiddling their fingers and looking for something to do.

There have been many warnings raised during the Brexit process that the sheer volume of work required is overwhelming government. In Scotland, the transition to independence would be even more overwhelming if we behaved as if this was 'just another government policy to deliver'. In terms of autonomy, expertise and capacity, the civil service in Scotland can't have this task just dropped on it.

There are a number of possible fixes for this. For example, some kind of rapid division of the UK civil service (at least in terms of lines of responsibility if not full HR policy) could be considered. There would then need to be a substantial recruitment process – but much of it would be fixed-term since many of the roles would cease to exist after independence. However, there are problems with this. The UK civil service is not known for successful rapid reorganisation, and doing this might well reduce the capacity to continue to deliver existing domestic policy. It is not obvious that this is the best vehicle for delivering the work needed, or that it would be possible to do this without the risk of harm to any other of the responsibilities falling on civil servants.

And there is a further issue of principle; setting up a new country is not best understood as a party political act. If a new Scotland is to emerge which is created in a way which is to best meet the needs of all its citizens and the many businesses and organisations which exist here, it should be built collaboratively and inclusively. The Scottish civil service is getting much better at collaborative working, but its core purpose is still to deliver the will of a single government. And, as has already been noted, unless that government has put the full details of its plans on how an independent Scotland would be established in a manifesto and stood on that manifesto in an election, it has absolutely no democratic mandate to complete this work alone.

It is therefore proposed that rather than trying to drop this workload and responsibility onto an existing civil service without the capacity and government without a mandate, a new structure should be set up to undertake the work of building a Scottish state. A National Commission for the Creation of a Scottish State might be thought of as a task-specific, time-limited, mutually and democratically governed civil service. It would be an agency set up to deliver all the tasks required of creating a Scottish state, from recruiting personnel to managing finances to facilitating negotiations. As soon as its tasks were completed, it would dissolve.

Part of the purpose and aim of a National Commission would be to generate the maximum amount of trust among all Scottish citizens. It would be important that it was seen not to grant unequal access or influence to any one political party, business interests, pressure group or any other grouping. Rather it would be structured in such a way that all of Scotland's many interests – political, social and commercial, urban and rural, young and old – all get a fair hearing and have the best possible chance of having confidence in the nation-building process.

There are three ways in which this should be achieved. First, the National Commission should begin with clarity. In the next chapter it will be argued that a substantial amount of preparatory work needs to be done before an independence referendum if there is to be a successful and swift transition. The National Commission can't be asked to begin with a blank sheet of paper on day one of the transition period. Indeed, it would be best by far if there was a good understanding of at least the skeletal structure of proposed independent Scotland during the independence referendum. This would mean that people had voted for independence with a good understanding of what they were voting for – and the work of the National Commission would be much easier both to trust and to judge if people understood fairly clearly what it was seeking to implement. It would also make the work of the Commission much easier if it had a clear blueprint to implement. Clarity greatly aids trust.

The second factor in creating trust in the building process is to ensure transparency and that the process is participative. Clear reporting on progress as work is done is essential – and the many practices which tend to create mistrust (commercial confidentiality exclusions, advice to ministers exclusions and so on) should be avoided. The Commission should be constituted not only to enable it to be transparent but to compel it to be so. And it must be designed to have the maximum number of opportunities for citizens to participate. Some of its tasks – such as developing a constitution – should be entirely participatory (this will be discussed below). Others should involve serious use of deliberative and consultative practices which help to gauge citizen's views of many aspects of the nation state being developed.

The third factor in developing trust is to ensure that there is broad and open governance of the National Commission. There are many governance models which might be appropriate here, but it is important that whatever is chosen is mutual, multi-party and multi-stakeholder. Whatever the final governance structure, no one grouping should have majority control of decisions. A final decision-making body – a Council – should be established and this should have balanced representation from different political parties and a balance of representatives of different interests groups such as business groups, trade unions, local government, poverty campaigns and so on.

No individual person should have the power to appoint this entire Council, possibly allowing different sectors to select their own representatives. Clearly there will need to be a lot of specialist and expert advice and so it is likely that many 'expert panels' would be set up to advise on specific and technical aspects of the overall programme. But it is important that this does not become an issue of 'capture' – the technical skills needed to set up a new currency are of course important, but they should not be considered alone without considering social and economic implications of decisions made. Again, the easier it is for citizens to monitor what is being done and how and why decisions are being made, the more likely they are to have trust in those decisions.

Once the foundations for trust and confidence are in place, it is for the National Commission to deliver on the plans it is given. A substantial proportion of the success of a National Commission will be based on how successfully it recruits personnel. Many of the core tasks are ones which rely on the quality of the people carrying out those tasks (recruitment issues will be considered later). They will also rely on good project management skills and effective risk management (which will also be considered later). Effective access to and management of finance will also be essential (and this too will be explored later). Delivering the actual work is then a matter of project managing good people with access to proper resources working to a coherent plan in an effective and transparent matter.

This would create the core infrastructure required for a transition process. For three years the Scottish Government would be wholly responsible for devolved policy and the UK Government responsible for reserved policy (with a Transition Committee coordinating between them on matters which impact on the establishment of a Scottish state) and a National Commission would be wholly responsible for the one-off steps necessary to achieve independence. These would include designing and creating new government departments, designing and putting in place new infrastructure, facilitating negotiations with external bodies and managing the finances of the building process. Getting this structure right will enable citizens to feel confident that their interests are being served in both the immediate and long terms.

Be prepared

At this point it is worth taking a step back. So far this book has been premised on looking at the steps that need to be taken after a successful vote for Scottish independence. However, it is patently absurd to suggest that the best approach to Scottish independence is to wait until after a vote to make all the key decisions. There are all sorts of reasons for this, and not least among them is the democratic imperative. One of the most commonly reported factors raised by people who voted No in 2014 is that they simply did not properly understand what they were being asked to vote in favour of. The idea of independence is one people understand immediately, but what that would look like in practice is quite another matter.

There was a White Paper last time which explained in broad terms what the then Scottish Government was proposing as the post-independence constitutional settlement. But it included a lot of 'coulds' and 'mights', made a lot of assertions which weren't fully fleshed out and relied heavily on positive behaviours from the UK Government (and others) which were not willing to offer those positive behaviours. Both tactically (for independence supporters) and democratically (for everyone who is interested in democracy), this did not work sufficiently well. There are very strong strategic and democratic reasons why it would be much better to present a clear, unambiguous statement of exactly what will be done to create a Scottish state, and that as far as possible that statement will stick to actions which it would be entirely in the power of a soon-to-be independent Scotland to do, relying on assertion and promises that it will 'be OK' as little as possible.

However, there is an equally solid reason for presenting such a plan in achieving the challenging three year transition period. The more that plans and proposals have been pre-negotiated and thought through prior to a referendum, the less negotiating and head-scratching will be required after a vote for independence. It is generally assumed that broad decisions need to be made and communicated about big issues like what currency we will use. There is much less of an assumption that the details of these big decisions will be agreed in advance. Instead there is a rather lazy tendency to assume that questions such as 'how will the immigration and customs service be created?' can be answered at a later date. And, of course, they can – but at a substantial cost. And that cost is that either Scotland will be underprepared for independence day and the process of emerging as a nation state risks becoming a scrappy and drawn-out affair as a lot of core work has not been completed in time, or the transition period will be extended and therefore Scotland's independence day delayed, potentially substantially so.

Scottish independence has been seen largely as a political issue. Indeed, some independence supporters have talked in terms of providing specific details about a future Scottish state as being against the spirit of a referendum which is only asking 'do you want to be an independent country?'. In that version of the progress to independence, the job of citizens is simply to answer in principle whether to separate from the UK and the final meaning of that vote can be debated and discussed forever more once Scotland is independent. However, this is simply a recipe for a slow and painful national birth.

It may well be nice to think of a nation state as being almost nothing other than the will of its people, but in reality it is more than that. It is a set of institutions and laws which are supposed to express the will of citizens as expressed at a ballot box. If those institutions and laws are not in place, the will of the citizens has little meaning as it has no agency through which it can be realised. Both ending up with a sloth-like transition process that drags on for years or stumbling rapidly into life as an ill-prepared nation state would do no favours to anyone in Scotland. And if there are difficult battles to be fought or at least complicated questions to be argued over, the more of that which can be completed before the plan those battles and questions are shaping is needed, the better the chance of a smooth, consensual and successful transition to independence.

So Scottish independence is of course a political issue (as it is a social and cultural issue) – but if independence supporters are serious about it, it is also a major project management issue. If there is a clear, unambiguous statement of what needs to be done to build quickly a new Scottish state, then those doing the building can begin earlier, move much faster and make fewer mistakes along the way. It is almost exactly the difference between building a tower from a detailed architectural plan or making it up from scratch on site.

The optimum outcome is fairly straightforward – on the Monday after a vote in favour of independence the process of creating a National Commission would begin and from day one that Commission would have a fairly detailed White Paper acting as a blueprint for the work it has to do. It would not need to spend weeks and weeks interpreting what the guidance it has received means. It would not be bogged down in lengthy negotiations on key questions. Obviously not everything can be decided in advance and no blueprint survives translation into the real world without alteration, amendment or addition. And there are aspects of the work of a Commission which simply cannot be pre-prepared, most particularly the negotiating process in which it is not possible to know in advance the position to be taken by the people with whom you're negotiating. But the more that can be done beforehand, the faster and more successfully the transition to independence can be achieved. So if the premise of this book begins after a vote for independence, it will be enormously beneficial if the many tasks ahead are not hobbled in advance through insufficient preparation. It is for proponents of independence to get on with the job well before they go back to the public and ask for their support.

Talent-spotting

There are some major projects which rely heavily on specialist goods and services. If you want to build a new mobile phone you will need to secure access to the specialist IP needed to make the phone work, you will need to secure specialist supply chains to provide the complex components from which the phone is made, you will almost certainly need to find a way to break into the distribution and retail networks needed to get your product in front of customers. Sheer human intelligence, enterprise and drive will not in itself be enough; there are specific real-world barriers to achieving an outcome which must be overcome.

This is not the case when setting up a new nation state. There are of course some real-world barriers that must be overcome, perhaps above all the need to get successfully negotiated agreements and compromises with other nation state (and multinational) actors. However, the means for overcoming those barriers is very human – you simply need to have very effective negotiators and they need to prepare well for their negotiations. There is no component you can buy which will fix the issue for you, no software code you can install which will do the job. It is all down to the quality of the case that you take into negotiations (including how fit for purpose that case is strategically) and the skill with which negotiators operate. In tasks such as creating a new currency there are indeed some technical software and hardware requirements, but none so specialist that they cannot easily be procured. By far the most important factor will be how much confidence the process of developing that currency instils in consumers, employers and wider financial markets. That confidence does not come from software but from the ability of the team doing the work and the solidity of the detailed plan they develop. Once again, it is the human resource which will be critical in achieving a positive outcome.

There are other tasks which are more straightforward. For example, setting up new government departments to cover areas currently reserved to Westminster like a Foreign Office and a Department for Trade and Industry are almost purely organisational and primarily involve creating the right structures with the right networks, providing them with the correct constitutional powers and then recruiting good staff with which to fill those organisations. There is no enormous external barrier – no-one is trying to stop Scotland setting up a National Statistics Agency or a Department of Social Security. The task is almost entirely predicated on the skill of the people undertaking the task.

Scottish independence has sometimes been presented as being, at heart, a complex procurement issue – 'from where will you be able to get your tanks/consulates/software systems?'. In fact, it would be much more accurate to see it as a major recruitment and human resources issue. We will need the best negotiators that we can find. We will need people with deep knowledge of currency and monetary policy issues. We will need people who have wide experience of defence and military issues. If we are able to secure people of a high enough calibre and provide them with a solid plan to enact, we can be confident of the quality of what they will achieve.

It will also be helpful to think clearly about Scotland's current strengths and weaknesses when developing a recruitment strategy. There are many areas where Scotland is well equipped with people skills either of those resident here or of Scots currently working elsewhere. For example, Scotland should find little difficulty in finding many people with real expertise in foreign affairs, borders and customs, social security, trade and industry and defence. Wherever it is possible to find someone of a suitable ability from within Scotland, that approach should be pursued. It is certainly quicker and, in the early stages at least, likely to produce the most efficient outcome given their existing knowledge of the current state.

The investment which is made in setting up a Scottish state will be substantial but it will also have very positive economic impacts in Scotland. The more employment that can be created in-country for people who currently live here, the greater the economic impact of that expenditure will be. However, we should also accept that there are a number of areas in which Scotland is unlikely to be well-endowed with expertise. Perhaps the best example of this would be monetary policy and experience of running a central bank, functions which have never really existed in Scotland in the modern sense. There may well be relevant Scots working in these sectors outside of Scotland and it may well be worth seeking to encourage them to return. However, we cannot afford to be myopic in our recruitment strategy and we should aim to bring in the best talent we can possibly find, from wherever we can find it.

This might mean looking around the world to identify people who have real experience of doing what we're looking for – and doing it well. It may be that they can be found in government positions in other countries. Perhaps a country which has been really innovative about how it uses its IT systems (Estonia for example) has relevant people who could be approached to, in part, replicate their work here. Perhaps there are globally-recognised figures who have particularly forward-looking and innovative visions for what a modern monetary system would look like. There will be people in many places who have extensive experience of negotiating international treaties. If we are imaginative about our recruitment process Scotland ought to be able to provide a very tempting opportunity for an ambitious professional who would see the exciting possibilities contained in a 'blank canvas' opportunity like setting up a new nation state.

People who have spent years trying to adapt or modernise state systems which are no longer fit for purpose will very possibly have found it a thankless task and might find the opportunity to create these systems in an integrated way from the ground up an attractive opportunity. There is every reason to believe that Scotland, if it gets its strategy right, would be able to scour the world for talent – and be successful in recruiting that talent for Scotland. When else would someone seeking a professional and personal opportunity like this ever find a better one? It would be truly a 'once in a lifetime' opportunity. Of course, the process would have to be very robust to ensure both the right people made it through – and that the wrong ones didn't.

Indeed, there is no reason why this process should wait until after a vote on independence – and very good reasons why it mustn't. Identifying a 'wish list' of leading figures who could be tempted to Scotland to lead (or at least guide) teams working on each task could and should begin well before a referendum. People could be head-hunted and approached, offered terms conditional on Scotland agreeing to become independent in a vote. If key people were identified, recruited and prepared as much as possible it would substantially speed up the process of creating a Scottish nation state.

The process of recruiting a top team like the one Scotland will require begins with creating clear job descriptions. These would be detailed descriptions of exactly what set of tasks a post must achieve, what conditions and environment they will have to achieve it in and what kinds of personal and professional attributes they will require to do it well. This will create a strong profile. At this point Scotland will require a team of professional recruiters. Their first job is to convert the person specification into a list of potential targets to recruit. They will do this by using networks of knowledge and by undertaking thorough research to try and find the best possible candidates anywhere in the world. As each new target becomes clear it is likely also to open up new avenues of possible exploration for further targets. Eventually this will lead to a long list of possibilities.

From this a shortlist will be produced. At this stage the key is effective research about each of the potential candidates to try and establish who appears best fit for the job. It is not necessary that the recruiters be specialist in the area in which they are recruiting – it is the process of talking to others, especially those who are genuine experts in the field being worked in, and gathering information during this research and investigation phase which produces the criteria which will enable successful recruitment. Once sufficient research is done, it will be possible to create a manageable shortlist of candidates.

But this research has another important purpose; this provides the background work which is necessary to produce a strategy for the recruitment of each individual. Secondly, the research and data gathered will also inform the wider strategy for that sector or part of the economy or infrastructure in question which will be useful in the longer term. It may not be simply the quality of the job which is an important factor in whether success in recruiting a candidate is achieved; people have many other factors in their lives. For example, the issues which may be important to a candidate with a young family could be very different from the issues important to a candidate who is older and at a late career stage. The issues which may be decisive in winning over a candidate can be very wide indeed – anything from a personal attachment (perhaps family or friends in Scotland or a historical familial tie) to lifestyle issues (for example, someone whose hobbies are around outdoor pursuits and would be attracted to Scotland's geography) to professional opportunities (a late-stage career professional who has always wanted that one big chance to…).

It does not matter what combination of these factors is likely to have the strongest 'pull' on a candidate, the job of the professional recruiter is to identify them, put them together in the most attractive package for the individual and then to engage in a process of conversation with the target such that the package of attraction factors is the focus of the recruitment efforts.

This will not be achieved overnight. Particularly when recruiting people at a senior level, there will almost always be a long process, particularly if they are recruited from outside Scotland. And of course in this particular case there is the added complication that much of the recruitment work can be done prior to a vote for independence in a referendum but that final appointments cannot be made until after that vote is secured. However, it should be hoped that by the time a second referendum is held there will be strong indications that there will be a pro-independence majority in advance so that it is easier to work on the principle that this project will move ahead. Indeed, it is possible that during a campaign a sufficient proportion of the core transition team could have been recruited 'in waiting' and be in a position to announce their intention to accept the job offer such that a 'core team' of talent could be presented to the public to reinforce the message that Scotland was very much ready to become independent.

But it is very important to be aware of what these longer lead times mean. Let us imagine that the aim was to recruit roughly 100 top people at the very start of the project to put us in a position to begin quickly and stick to the three-year timescale as set out in this book. To recruit 100 people of that level of seniority might take a team of about 20 to 30 professional recruiters a period of about 18 months to complete that work. Therefore in an ideal world we'd be recruiting the recruiters at least a good year and a half before the date of a vote for independence and they would be working full-speed from that point to have a team ready and in place in time for the vote.

Failing to do this would not only slow down the process of creating a new Scottish state after a pro-independence vote, it would fragment the process, with some parts of the project team likely to be much more ready than others. And it would also almost certainly lead to a much higher level of reliance on 'what's there now' – the civil servants and 'friends and family' of the Scottish political scene who would have to be shuffled around one more time to make up a competent-looking transition team. For those who might instinctively think that this is a bit of an obscure issue for people who 'just want to achieve sovereignty', it may be worth considering what the post-Brexit vote looked like for those who 'just wanted to leave the EU'. Poor preparation and not having a well-prepared team in place did not increase confidence in the process which has followed. Scotland would do well to learn from that mistake in preparing for independence.

If we see the process of developing a Scottish state not in terms of an endless sequence of 'problems' but rather a sequence of plans which are being taken forward by a world-class team of experts with full democratic oversight, the picture looks quite different. In fact, at that point independence begins to look much less like a worrying uncertainty and much more like an exciting possibility. Building the new Scotland will be a people process. Let's make sure we're ready to get the best people possible.

Paying for transition

Later in this book, when we get to some of the specific projects and tasks, some numbers will be put forward to give an indication of the amount of investment it will require to complete them. When these are summed up it will be possible to get a rough sense of the amount of investment required to reach Scottish independence. It will also be possible to show how this investment will not only create a new nation state but at the same time act as a very substantial economic stimulus for Scotland throughout the transition period and beyond.

However, it is of course necessary to explain where the money for this investment will come from. Throughout this period the Scottish budget will continue to be primarily managed by the Scottish Government (and the vast bulk of that budget will continue to be spent on domestic public services). That money will be accounted for using the usual Scottish Parliament budgeting process, resulting in a budget bill. However, quickly prior to the establishment of a National Commission a supplementary budget bill will be require to be introduced by the Scottish Government and passed by the Scottish Parliament.

This will authorise the expenditure which is necessary to set up the Commission. This will enable the National Commission to begin the process of recruiting its core team and start implementing the work plan. The Scottish Government would then introduce legislation which would delegate to the National Commission the power to set its own operating budgets for the three-year transition period. These budgets will be carefully scrutinised by the governing body of the Commission, its Council, to ensure that they are sufficient to deliver the work that needs to be done but which achieves the best possible value for money. The Commission's Council would be answerable directly to the Scottish Parliament and would carry the responsibility for monitoring and reporting regularly on all issues of financial accountability.

The National Commission would be constituted by an act of the Scottish Parliament and would be constituted such that it is able to raise finance by issuing bonds. That would then enable the Commission to issue a series of five and ten year bonds which would be used to fund all of its work. This would require that the transition committee (the joint committee of Westminster and Holyrood coordinating the transition period) agreed with the UK Government that there would be an extension to the Scottish Government's existing borrowing powers. That would then enable the Scottish Government to act as a guarantor to the National Commission's bond issues. This in turn would give investors much more certainty and security over these bonds which in turn would lower the bond rate (the amount of interest paid to investors who buy these bonds) and reduce the cost of borrowing to the National Commission.

At this stage the Scottish Government would clearly not have in place the range of financial institutions which would usually be expected to be in place to ensure there were robust systems of fiscal and monetary management. It is also the case that the Scottish Government would have only a very limited track record of borrowing and so would not have established a substantial credit rating with international lenders. And of course, other less standard options such as quantitative easing will not be available to Scotland until after independence. This means that bond issues will be more expensive during the transition period than they would be once Scotland becomes independent. It is therefore estimated that the National Commission (backed by guarantees from the Scottish Government) would be borrowing at a rate approximately half a percentage point higher than the current UK borrowing rate.

These arrangements will ensure that the National Commission has sufficient resources over the three years of its existence to complete the work it has to complete. During the same period the Scottish Government will have operated from within the budget allocated to it by Westminster and so, other than its very limited borrowing powers, will not have increased Scotland's debt. At the end of the three year period and after independence day, the total liabilities accrued by the National Commission would be taken over by the government of an independent Scotland and be added to the national debt at that point. This means that the costs of setting up an independent Scotland will not have any impact on the amount of money that Scotland has to spend on public services during the transition process. Once independent the costs of set-up will be transferred in a one-off move to add them to the national debt. In terms of the overall national debt this will be a proportionately very small rise (depending of course on the outcomes of secession negotiations with rUK) and so again will have no effect on the first government of an independent Scotland's ability to pay for public services.

Risky business...

There is no doubt that the project being discussed here – the establishment of a new nation – is a detailed and complex one. There are three factors in particular which make it unusual. The first is the scope of it – this is not a replacement of a tax system, or the adaptation of an energy system or the redesign of a social security system. It is all off them simultaneously. This creates unique opportunities to do all of this really well and in an integrated and consistent way. But it does mean managing a series of very substantial project strands at the same time.

The second complicating factor is the importance of each of the individual projects. These are not new lines of washing up liquid being prepared for supermarket shelves. If there are delays or failures in the delivery of any of these project strands then contingencies must be put in place to ensure that there is some continuity of service from the old systems – or taxes wouldn't be collected and benefits would be unpaid. These are projects which simply can't be allowed to fail or to be excessively delayed. The third complicating factor is that many of these project strands – each complicated enough in itself – interact substantially with other project strands.

For example, creating a digital payment system for a new currency is necessary to pay wages and bills and carry out procurement in almost every other part of the public sector (and indeed beyond). For the NHS or the Fire Service or the local government sector to develop or revise IT systems which enable them to pay the salaries of their employees, they need a Scottish currency payment system (this would be a replacement for the BACS system which pays in Sterling) to be in place first. If the payment system is delayed then the IT and HR systems of these other agencies will be delayed. If the IT and HR systems are delayed then this might have a knock-on effect on recruitment or procurement, or at least slow down the speed at which the transition can be made.

It is not only reasonable to be open and honest about some of these complexities and risks – it is actively helpful. If we can be clear about the risks, then we can pursue a proper risk management approach as part of a proper project management approach. This will handle both the complexities or each individual project strand and the complexities which are created through the interaction of work progress on different project strands. In a previous chapter it was suggested that the process of developing a Scottish state should be thought of as in large part a major recruitment project. Once that recruitment is complete, the transition to Scottish independence might best be thought of as a very major project management process. Carefully monitoring, measuring and managing of progress on each project strand and the project overall will be crucial.

This is not the place for a detailed discussion of project management approaches, but it is worth giving a brief outline of what that would mean. First, the maxim 'you cannot control what you cannot measure' is important here. There are two parameters for measure-ability – the capacity to do the measuring and a clear definition of what is being measured. (The thing being measured must be defined in a way that makes it meaningful. 'Create a new currency' is a task too big to be measured, but 'create a new currency payment system' is a measurable task.) To enable this to happen, a Work Breakdown Structure would be created. This would breakdown the overall task into manageable component actions and create ways to measure progress with each of them.

Following the creation of a Work Breakdown Structure (WBS) there would be an Organisational Breakdown Structure (OBS). The purpose of this is to define responsibility for each individual task, assigning a Responsible Manager to each of the elements in the Work Breakdown Structure. Once this is done, the organisational structure has been mapped against the task structure to be completed – the WBS defines 'what sort of work' and the OBS defines 'whose work'. This gives an overall work flow structure to the project and assigns responsibilities and creates methods of measuring progress in achieving each of the elements on the way to completion.

However, these structures assume that everything will go well – but not everything will go well. No project, even a simple project, progresses smoothly from conception to completion without a hitch – and most certainly not a complex project. It is therefore necessary to consider, in depth, the range of risks which are associated with the progress of the overall project. This creates a Risk Register, which is an initial model of the range of problems which may beset the project and the likely impact of each of those problems on the overall project.

To take the example used above, a risk register would model what happens if the scheduled delivery of the currency payment system is delayed by a month, by six months, by a year... This would assess the knock-on effect on other parts of the WBS and would potentially create a risk factor in each of them. A Risk Register of this nature provides many methods for managing the project. For example, it can flag up at an early stage any parts of the project which are particularly crucial to its overall implementation. If, for example, modelling the risks involved in the project to deliver the payment system show that this has potentially catastrophic effects across the overall project, it means that contingencies can be put in place and, perhaps more importantly, it focusses the minds of all those working on the critical elements of the overall project.

This has been little more than the briefest of overviews of how a project management approach should be taken to the work of the National Commission. It is here mainly to ensure that anyone who is genuinely interested in the establishment of an independent Scottish state is taking proper account of the scale and importance of the project management aspect of Scottish independence. We simply cannot afford to get this wrong and so it should be given due prominence throughout our thinking. However, Scotland is well endowed with excellent project managers in almost all industry sectors and identifying high quality people capable of overseeing the implementation of this work is perfectly possible. Project management may not have the romance associated with a campaign for national self determination, but it would be a big mistake not to understand just how important it will be to the successful completion of that campaign.

Foundations for the future

At this stage we would have reached the point where we would have in place a sufficient work plan, a properly resourced agency to deliver it with the governance oversight to make sure it is done well, the finance necessary to fund development, the means of recruiting the right people to carry out the project and a project management approach to deal with the complexity and the risk involved. It is therefore time to turn our minds to the main tasks that would need to be delivered.

The foundation for any successful modern nation will be its constitution. A constitution is a written and enacted fundamental law, at the apex of the legal and political systems, which is superior to ordinary Acts of Parliament. Constitutions define the institutions of the state, regulate the relationships between them, proclaim the basic principles and values on which the state and society are based, and protect the rights of citizens. Constitutions can be changed only by a special procedure, and to do so requires broad political and public support.

The word ‘constitution’ is sometimes used rather loosely in British English to describe the overall working practices of a system of government – the general patterns, rules and expectations according to which the state is normally operated. In this loose sense, every country, including the UK, possesses a ‘constitution’. However, in most other countries outside the UK – including all other European countries – the word ‘constitution’ refers to something specific which is written down and in one place. This is often described as a ‘written constitution’ while the British version (a patchwork of statutes and conventions not coherently written down in one place) is described as an ‘unwritten constitution’.

But an ‘unwritten constitution’, or a constitution that can be amended by ordinary law or which is not superior to ordinary law, is a contradiction in terms. Every right, every check and balance, every aspect of the system of government, is vulnerable to being overturned by ordinary parliamentary majorities. There would be no counter-majoritarian protections for minorities and for individual rights, and no legitimate or enforceable basic principles to keep both the state and its citizens democratically grounded.

The prospect of Scottish independence in itself tells us nothing about power, accountability, transparency, meritocracy and good governance; it requires a constitution to do that. A democratic constitution is a commitment to an ideal that can go on illuminating Scottish political life; acting as a standard by which to critique concentrations of power, erosions of rights and instances of nepotism. Well-studied experience tells us that one of the greatest blessings that a country can have, for the flourishing of its economic life, society and culture, and for the well-being and happiness of its citizens, is good government. Good government is infinitely more vital to the well-being of a people than, say, endowment with natural resources. Under a good government, resources are multiplied and put to use for the benefit of society; under a bad government, they are either left untapped or exploited only for the benefit of a few.

Above all, an independent Scotland must be a Scotland for all its citizens. An independent Scotland cannot belong to one political party, one government, one political movement – or indeed to any one section of the population. It must be a common inheritance for all of us, directed by and for the whole 'community of the realm'. This is why the foundation of a healthy democracy is a good constitution, a necessary (but not a sufficient) condition for success. A good constitution establishes a Scottish state on a solid democratic legal-institutional basis, ensuring that power operates impersonally, legally and institutionally rather than flowing from a particular person or party. In so doing, it lays a firm foundation for future social and economic progress, which is rooted in a stable, inclusive and accountable government, and in the rule of law and the protection of human rights.

We should not be complacent about this. The Economist's Democracy Index of 2012 (not a flawless measure, but not an unreasonable one) identified that only about 11 per cent of the world's population live in a full democracy (almost two in five people live in 'flawed democracies' where there is voting but beset by human rights abuses, the exclusion of minorities, the weakness of the rule of law, endemic corruption, political violence or other failings). While it is very unlikely Scotland would join this group, the way to prevent it is first through getting the constitution right. So the primary task of a constitution is to provide clarity, protection and reassurance: clarity on how the state will function and on what its legal-institutional basis will be, protection for democratic processes and human rights, and reassurance that the Scottish state will belong to all of its citizens, in an inclusive, non-discriminatory and non-partisan way.

Supporters of independence, especially on the left, often think of the constitution as a transformative, aspirational document. And it can be that – but primarily the constitution must be defensive and preservative, preventing governments from abusing power by undermining rights or by rigging the rules of democracy. The constitution must ensure that the Scottish Government, backed by an ordinary working parliamentary majority, could not (for example) change the electoral system for its own advantage, or dismiss all the existing judges and replacing them with its own appointees. A three hundred year old state might be able to muddle through without adopting a written constitution, but for a newly independent state it would be internationally unacceptable. Having a written Constitution is the norm throughout all of Europe and most of rest of the world (New Zealand and Israel and to a slightly lesser degree Canada, being the only democratic exceptions). Simply for reasons of international acceptability and for meeting the norms of the modern world, an independent Scotland's constitution must be a written one.

There is a framework of internationally recognised constitutional standards to which states must adhere if they are to claim democratic legitimately in the eyes of the world. These include the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights and the Convention on the Elimination of all forms of Discrimination against Women – as well as regional instruments such as the European Convention of Human Rights and the European Convention on Local Self Government.

Although these international agreements leave wide latitude to states in how they choose to constitute themselves, they nevertheless provide clear minimum baselines with which states must comply in order to be legitimate democracies. A written Constitution for Scotland is a way of showing, to an international audience, that Scotland is serious about a commitment to democracy, human rights, the rule of law and, in consequence, that the country is not a 'pariah state.' This is especially important in the eyes of institutional gatekeepers such as the Venice Commission, the Commonwealth and the European Union, whose good estimation of Scotland would be vital to making a success of the independence project.

So how should the production of a constitution be done? Constitution-making is a co-operative exercise, involving 'elites', 'experts' and 'everyone'. 'Elites' are required because they are the ones who are likely to have to make the constitution work. One of the lessons from Iceland's failure to adopt a new constitution after the financial crisis is that even the most democratic constitutional process must include and to some extent compromise with the existing political and institutional elites. In many cases, major design decisions arise out of compromise between those elites, and to exclude them runs the risk of stalling the whole enterprise. 'Experts' are needed to ensure that the constitution is technically sound; an otherwise good constitution can be weakened by poor drafting, insufficient detail or careless arrangement.

There is a broad range of comparative experience on which to draw, which might prevent ‘schoolboy errors’ from creeping into the text. Experts can also act as advisors to the political elites in the negotiation of the constitution, helping them to think more clearly about the likely consequences of their decisions. ‘Everyone’ is needed to give the constitution democratic legitimacy. The Constitution is the supreme law. It derives its legitimacy from the fact that it represents the ‘settled will’ of the people, above and beyond the particular mandate of any party in government. If the Constitution is to have this legitimacy, it must be acceptable to the people. That calls for effective public engagement in its development, but even if the general public only has a limited influence on the text itself (which in most cases will, necessarily, be technical and so much of the heavy lifting being done by elites and experts), the people’s ultimate approval of the text is vital.

Scotland is a ‘late adopter’ of constitutional technology and has the advantage of being able to avoid the mistakes of others. There are now many other written Constitutions in the world which are derived from the Westminster model, with appropriate national adaptations. From these we can derive the raw materials of a Scottish constitution without having to break too much new ground. Examples include the constitutions of Ireland, Malta, the Commonwealth Caribbean and India. Basing the constitution on this tried and tested framework also adds to the constitution’s strength and its capacity to provide reassurance; there is a globe-spanning community of political and legal practice that is familiar with operating such constitutions. That is not to say that we must be bound by these models, but they do provide a good starting point. Other sources of constitutional norms include the European Convention on Human Rights and the Commonwealth Charter.

This gives us a framework for how a Scottish constitution is technically grounded. But Scotland needs a Constitution in place on Independence Day – to do otherwise would be to risk creating a dangerous legal ‘black hole’ at the very beginning of a new state which would fail to provide the necessary reassurance. Consistent with democratic principles, that means the constitution has to be approved by the people before independence begins. This also means that citizens should have some basic constitutional reassurances not only before Scotland becomes independent but also before the point at which they are asked to vote in principle for Scottish independence.

There must be a provisional constitution available for voters at the time they are asked to vote in a referendum on Scottish independence. It will not be possible to create a fully inclusive constitution by this point (the ‘everyone’ part of it) because those who do not support independence are unlikely to participate properly in a process until it becomes a reality – and to produce it without them would be utterly against every principle of a democratic, inclusive Scotland. This means that inevitably constitution-writing will have to take place in a two-stage process.

The first stage should be all but completed before a vote on independence. This should involve the convening of a 'Constitutional Conference', a grouping of the 'elites and experts' who would devise the technical foundations of a constitution. As the purpose of the Provisional Constitution is to protect and guarantee democratic institutions and basic human rights, it should avoid controversy at all costs. It should not contain divisive ideological content. It should not attempt to be a wish list of policies, especially when those are likely to provoke a conservative backlash against the new Scottish state. Issues such as church-state separation (including the status of publicly funded denominational schools, abortion rights etc) should be handled in a way that does not threaten the status quo. Socio-economic rights, if included, should be framed in a way that respects the role of Parliament in determining the extent of their operation. If there are small innovations, they should centre around strengthening the processes of democratic representation and accountability rather than seeking to impose partisan policy prescriptions.

Since the provisional constitution would remain fairly close to a cleared-up, tidied-up status quo, that provisional constitution should retain the monarchy. A constitution should be agreed by a super-majority of the Scottish Parliament (meaning a threshold higher than the fifty-per-cent-plus-one model used for normal votes, so with a threshold of perhaps 60 or 70 per cent of votes cast). Again, this Parliamentary support may be difficult to secure prior to a successful vote for independence since anti-independence parties may be unlikely to be willing to engage with the vote. However, it is to be hoped that, in private, they can play at least some part in the production of the provisional constitution or at least review it such that it is quickly possible to ratify this constitution after a vote in favour of independence.

It is this provisional constitution that would be put to citizens in a vote on independence. This would provide them with concrete reassurances on democratic and human rights issues and on the rule of law. However, this should by no means be the end of the process. Once there is a vote for independence it will become possible to pursue the 'everyone' part of the equation. At this point at least some people will want to move beyond a fairly minimalist and technical constitution. The sorts of things which might be added are statements of values, further codification of rights, changes in the status of the head of state and so on.

There are many questions that campaigners and individual citizens may ask. Should a constitution include a more fulsome set of rights, including not only more extensive socio-economic rights, but also cultural rights, gender rights, environmental rights, children's rights etc.? Should there be an enhanced role for direct and participatory democracy, using referendums in day-to-day governance or including a commitment to use newer and more innovative forms of involving individual citizens in decision-making? Should the electoral system be reformed – for example, to include gender quotas, ensure the balanced representation of minorities, or provide a recall system? Should there be a stronger system of regional government within Scotland, devolving substantial powers (for example) to the Highlands and Islands? And one question which is absolutely guaranteed to come is whether Scotland should become a republic, and if so whether the Head of State should be elected by Parliament or by the people. These are only examples – there may be many more that people wish to raise. So there must be an effective process for widening out this constitutional discussion, bringing together a wide range of views and ideas, and then allowing people to look at all the ideas that have been generated and to decide which ones deserve a place in the constitution and which ones do not.

This will be a big and time-consuming task. It should not only involve subsets of the population but find ways to involve everyone who wishes to participate. This will mean all sorts of approaches, including really well-designed online tools, public participation events all over the country, engaging with community and voluntary organisations, reaching workplaces and places of learning and more. There is now a lot of very good practice available on participatory practices and the task of gathering the public input to the constitution should be one of the tasks given to the National Commission. The Commission shall have to recruit people with experience of this kind of participative process and begin the project quickly. The final constitution will need to be approved by the public in a referendum and this must take place before independence day. The timescales therefore suggest that there would be little more than six months to design and set up the process, two years to reach as many citizens as possible with the outcomes being analysed on an ongoing basis, and then six months to finalise the text and put it to the public in a referendum. Once again, this is a tight but achievable timescale.

There would then be a referendum close to the end of the three-year transition period. This would primarily be used to approve the constitution, but it is possible that this referendum could also be used to resolve any unresolved controversial issues which could be put directly – for example, status of the monarchy and relationship with the European Union. It is important to note that this referendum is not to reopen or 'confirm' the decision to become independent; this decision was made. This is purely to approve the specific constitution, as amended and enhanced through the public engagement process.

It is impossible to know what this process will produce – it could be anything from cautiously conservative to wildly radical. So it is difficult to know how likely or not it is to gain widespread support. However, one way or another a constitution must be in place for Independence Day and so the referendum will make clear that if this enhanced constitution is rejected then the provisional constitution as set out at the initial independence referendum will become the initial constitution of an independent Scotland. This is of course not the end of the matter. Once Scotland becomes independent it is able to alter its constitution at any time – so long as changes achieve a super-majority in the Parliament and are approved by the public through referendum.

A constitution is the foundation for a country's future. In Britain we are not used to the ubiquity of this, but it is important that an independent Scotland understands the importance of getting its constitution and its constitutional arrangements right. This will underpin the success of the new nation.

Money, money, money

The next big transition issue to which we should turn our minds is the issue of currency and the elements of the monetary system. This is very clearly a priority for a number of reasons. First, it is important to get the economic foundations right and many of these are predicated on a sound currency and finance system. Second, there are many other aspects of the transition which will be held up if progress on developing a Scottish currency is delayed, so to achieve smooth progress of the overall transition it is important that currency plans progress quickly. Third, there is an important symbolic aspect to putting a new currency in place. If the public and international observers can feel confident that this is progressing well and quickly, it will increase their overall confidence in the process of Scotland becoming a nation state. But perhaps most prosaically though most importantly, this is one of the most complex and time-consuming tasks that will be involved in the transition to independence and so it is imperative that it begins quickly and proceeds with real intent.

Before we look at the many steps needed to create a Scottish currency it is worth briefly touching on the question of the options. This book is not the place to rehearse the arguments around the currency options, but it is worth explaining why the option of a Scottish Pound has been chosen. The White Paper Project has been trying to identify what are the factors which will allow Scotland to become the most robust country it can in the shortest possible period of time. All of the options around a shared currency have one of two problems; either they are outside our control and so cannot be implemented quickly (as is the case with a formal Sterling Union or full membership of the Eurozone) or they are very clearly temporary solutions which will soon have to be replaced (Sterlingisation).

Let us take the example of public sector IT infrastructure which will have to be adapted for Scotland to become independent. If the temporary currency route is taken, this means that the currency which is 'built in' to the IT systems will (possibly fairly quickly) have to be 'built back out' again and replaced with the permanent currency option. But almost the same outcome occurs if we have to wait for a negotiated sharing currency deal – knowing that if the negotiations don't go well we may have to start all over again developing a Scottish currency from scratch but having wasted a number of years in the interim. There are a complex range of economic and political considerations which can also be argued – and there seems to be a growing strong consensus that Scotland needs its own currency. But from a purely project implementation and management process, biting the bullet at the outset and getting the work done is the most persuasive position to take.

So what has to be done? The introduction of the Euro gives a degree of precedent as it was also introduced with a three-year transition period. If Scotland votes for independence, the first step is to set up the project team inside the National Commission which will manage the introduction of the new currency. This will be made up of experts from the finance sector and others with direct relevant experience, overseen by the Council of the National Commission. Once the group is up and running its first act will be to create a digital version of the currency. All internationally traded currencies exist as digital currencies; obviously international money-traders do not do so using sacks of notes and coins. It is this digital currency which sets and defines the value of the currency, both digital and hard cash. As soon as it is set up, people can see the currency and its value.

This would be the first step to making a Scottish Pound an internationally recognised currency. At this stage, as the currency is not being traded or used in a domestic economy, the set-up process can give the currency any value (which is to say any exchange rate) it wishes. Once a currency becomes widely used in its own economy or widely traded on international markets, the value of that currency will be affected by a number of different factors, including economic performance, domestic demand and international investor confidence. At that stage (once fully launched) maintaining or managing the value of a currency becomes a more complicated matter and requires a central bank with a substantial foreign currency reserve. But during the transition period, pegging the value of a Scottish Pound (meaning maintaining a fixed ratio of value with another currency) is straightforward. And for all sorts of reasons, prime among them stability and consistency during the transition period, the value of the Scottish Pound should be pegged 1:1 with Pound Sterling – so a Scottish pound would always be worth the same as a Pound Sterling.

This creates a digital 'presence' for the new currency. It also allows the banking industry to begin to adapt – and dealing with bank account issues is likely to be the next key task. Bank accounts are designated in a single currency – if you were to deposit 100 US Dollars into your bank account, it would be exchanged into Sterling and would be added to the Sterling amount already in your account. You do not get a bank statement which says "X amount in Sterling, Y amount in US dollars, Z amount in Euros".

So Scottish bank accounts will either have to be re-denominated in Scottish Pounds or new bank accounts in Scottish Pounds will need to be created. The first problem with this is identifying what is a ‘Scottish’ bank account. Many people in Scotland will have accounts with non-Scottish banks. If they bank at a local branch and have a sort code which identifies them as being in Scotland, this makes it reasonably easy to identify which is a Scottish account. But there are an increasing number of bank accounts which are ‘non-geographic’ – postal or internet based and not rooted in a local branch. For example, everyone who has a bank account with the Cooperative Bank is registered as having an account based in a “Central Customer Services” centre which is based in England. It might be possible to identify accounts by postcode, but this requires some work. A similar problem may occur in the other direction – someone who was a student in Scotland (for example) might have set up an account with a bank branch in Scotland and, despite having long since returned to their home in England, never got round to moving their registered branch. This person would presumably not want their account re-denominated in Scottish Pounds.

Another complicating factor is that, after re-denomination, Sterling will still exist. In the case of the introduction of the Euro, all the currencies that the Euro replaced ceased to exist, which is not the case with Sterling. And there may be very good reasons why someone may wish to maintain a bank account in Sterling as well as having one in Scottish Pounds – for example, if they live near the Scottish Border but work in England and regularly make payments in both currencies. The same will apply to small businesses which trade extensively across the border. Holding dual bank accounts is common practice, for example in Northern Ireland where people trade across the Irish border and so hold accounts in both Sterling and Euros.

All of these issues mean it isn’t entirely straightforward changing bank accounts; it certainly wouldn’t be appropriate for the Scottish Government to mandate all the banks automatically to re-denominate currency (the ‘no compulsion’ used in the introduction of the Euro). Therefore the solution is to allow Scottish residents to convert the currency of their account from Sterling to the new Scottish currency at any time from the point at which the digital currency is created. Assuming the banks want to keep their customers they would probably facilitate this by moving any customers with accounts designated as being in England to Scottish sort codes. Similarly if a Scottish customer is at a bank that chooses not to offer Scottish bank accounts the Current Account Switching Service could be used to facilitate a change of bank and thereby allow them to convert to an account in the new Scottish currency.

It can be assumed that, during the transition period, there will be a rush of supporters of Scottish independence who will want to convert their bank accounts to the new Scottish currency at the earliest opportunity, while others will convert their bank account over time, as confidence in the new currency grows. Finally (probably based on a communication campaign from the National Commission on the need to pay taxes or receive welfare payments in the new Scottish currency) there will be a rush to convert remaining bank accounts to the new Scottish currency at either the time the country becomes independent or when the physical form of the currency is introduced (which could be on the same day).

At the end of the transition period there will no longer be any guaranteed equivalence between Sterling and the Scottish Pound. A decision to 'float' the currency rather than keep it pegged to Sterling would mean that simple account-switching arrangements would no longer apply. This means that, thereafter, any movement of funds between a Sterling and a Scottish account could be subject to foreign exchange transaction costs. This is very unlikely if the currencies remain pegged, but a public information campaign explaining the merits of shifting accounts at an early stage would be helpful. The cost of currency switching is born by the banks themselves as a standard business cost (as is the case with the existing Current Account Switching Service). This is a commercial investment which allows those banks to continue to profit from Scottish consumers. Whilst there would be some additional cost (administration costs associated with setting up a separate Scottish operation, marketing costs associated with the new Scottish bank accounts) these costs would also apply if an independent Scotland continued to use Sterling. For example after independence banks would need to be able to segregate Scottish Bank Accounts from those held in the rest of the UK as Scottish law would apply to these bank accounts.

There should be no major IT project associated with this shift for most large retail banks as their IT systems already support multi-currency banking and adding a new currency is an administrative task rather than one involving a change of IT system. However, for some smaller financial institutions there may be additional costs if they do not have multi-currency IT systems. So if for example a credit union did not have a multi-currency IT system then it would either need to convert all its accounts at the same time (which would probably need a vote at the AGM of its membership) or would need to invest in a new computer system. For this reason there may be a need to offer government support to some of these smaller credit unions along the lines of the existing Credit Union Expansion Program being rolled out by the UK government as part of its financial inclusion proposals. To give some scale of the total cost, the government budget for CUEP was £36 million. If we assume that about 10 per cent of this was directed to Scottish credit unions there would be a cost of £3-4 million. This support would not be required by all credit unions as a number have modernised their IT infrastructure over the last few years and could support holding accounts in Scottish and Sterling currencies.

During the transition period and for as long as the currency was pegged after that, any electronic payment (payment from a debit card, transfer of funds, etc.) from a Scottish currency account paying to a Sterling account would be treated as a payment in an equivalent currency and the full amount credited to the Sterling account without any foreign currency transaction costs. This would allow accounts to be converted during the transition period without having to try and co-ordinate a switchover where the whole banking system would transition to the new currency on the same date. It would allow banks to transition accounts to the new Scottish currency at different times within the transition period thereby minimising the disruption to the banking system.

After the transition period if the Scottish currency became a free floating currency then a payment between a Scottish and a Sterling currency account would be treated as a cross currency payment and so could attract a foreign exchange transaction fee from the bank (though it could be a competitive advantage for a commercial bank not to do this and the increased competition being introduced as a result of the new Payment Services Regulations 2017 – the title of the UK act that is implementing the EU Revised Payment Services Directive in the UK – could well minimise these transaction costs).

The biggest decision with regards to making payments would be what infrastructure would be used to carry the payments after independence. Currently in the UK there are a number of different payment systems (BACS, Faster Payments, CHAPS) all of which use different message formats and are Sterling-based as they are for the UK domestic market. However based on the Payments Strategy for UK Payments, these different systems will be consolidated into a single New Payments Architecture by 2021. A newly independent Scotland would need to set-up a domestic payments infrastructure for the new Scottish currency because the BACS system with which most people are familiar is only for transactions in Sterling. However the starting point for this infrastructure would depend on the date of independence and how much of the UK New Payments Architecture was in place. In addition to a domestic payments infrastructure, the new Scottish currency would need to be set-up on international payment systems (such as SWIFT) so that any payment identified as belonging to a 'Scottish Bank Account' (based on the country code of the account which will be discussed shortly) from anywhere in the world would be directed to the correct Scottish bank account.

So how should we deal with this? The simplest solution would be to build a single Scottish payment system based on the ISO 20022 payment message standard for all Scottish payments (which is the international standard which the new UK payment system will use). The ISO 20022 message standard is used in the Euro zone in the Single European Payment

Area (SEPA), by Singapore and is being introduced by countries such as the USA, Switzerland, Australia, New Zealand and Canada over the next few years. As such a diverse set of countries will be using the same payment message standards this will simplify the movement of money from one country to another and reduce time, complexity and cost. The eventual aim is to be able to send a payment between say Frankfurt and New York instantly (instead of taking two days as it does at the moment). The shift to this new payment system will mean that all UK Financial Services operations will be running projects to modify their IT infrastructure to use the ISO 20022 international payments standard over the next five years. This will not be as big a task for them as it sounds as any of them that send Euro payments will already have software that supports these standards (accounting software such as SAGE can also produce payments in the ISO 20022 format).

Given that the work to produce a world standard payment system is already being done the only Scottish aspect to this is the Scottish Clearing system that sits in the middle. It is worth explaining this. If £10 is transferred from an account with one bank into an account held by another bank the account holder will enter the sort code and bank account number of the account the money is being paid into. The bank from which the money is being sent identifies the sort code entered as the sort code of another bank and so passes the payment to a clearing system. The clearing system then identifies the sort code as being of a specific bank and so sends the payment to the data centre of that bank. That bank receives the payment message, identifies which of its accounts this money should go into and credits the account with the £10.

A number of decisions would need to be made regarding this in a Scottish context. Firstly, would we need a centralised clearing system (like Faster Payments today) or would we attempt to use a new system such as 'Distributed Ledger' where each clearing bank talks directly to other clearing banks, cutting out the need for a central intermediary. However, this is entirely untested and has been rejected by a number of countries which have explored it, meaning Scotland should almost certainly adopt a more traditional method – a centralised clearing system. We need to decide if this is something that is owned by a commercial company or something that is run as part of government-supported infrastructure.

While there is some debate about how much a 'New Payments Architecture' would save, it is estimated that the "New Payments Architecture" will save between £0.8 and £1.5 billion in settlement costs for the UK – but any saving would be smaller in Scotland and there are other clear benefits in the Scottish system from having a government-owned Centralised Payment System. This would make the movement of money in Scotland more transparent and make easier things such as identifying tax avoidance, reducing fraud and tackling money laundering. If there was a decision to set-up a centralised Scottish Payments system then there would need to be a capital investment before the cost reduction benefits began to accrue. As an indication of this cost, setting up a new centralised Scottish Payments system would be of an order of magnitude of £10-30 million depending on the amount of functionality involved (for example whether or not to implement anti-money laundering detection or a payment fraud detection system as part of a centralised payment system). This is assuming that the existing ISO 20022 model was followed and there was not an attempt to create a bespoke payment system just for Scotland (which would be more expensive).

It would be for the currency team in the National Commission to propose a specific solution to issues such as the payment technology used in Scotland. But it should be set out as an early principle that Scotland wishes to prioritise transparency, anti-corruption and fair payment of taxes. This makes a centralised clearing model particularly attractive.

There are a few more steps banks will then need to take to prepare for the transition to a new currency before physical money is introduced. They must ensure the smooth transition of standing orders. Standing orders are set-up and controlled by the account holder of the bank account being debited. They are a request to transfer a certain amount of money to a particular account at a regular interval. Consequently if the bank account were re-denominated from Sterling to the new Scottish Currency then the standing orders attached to the bank account would also be re-denominated to the new Scottish Currency. During the transition period any standing order from a re-denominated account paying to a Sterling account would be treated as a payment in an equivalent currency and the full amount credited to the Sterling account without any foreign currency transaction costs.

As with payments, treating Standing Orders between Scottish Pound and Sterling accounts as being equivalent currencies during the transition period would allow time for the financial services industry to convert bank accounts to the new Scottish currency. As with payments, after any point at which the Scottish Pound is allowed to float freely (and would then not be equivalent to a Pound Sterling) would be treated as a cross currency payment and so could attract foreign exchange commission from the bank.

Direct debits differ from standing orders in that the direct debit represents a mandate to debit money from a bank account – standing orders are an instruction to send money from your account, a direct debit is permission to someone else to take money from your account. This can be a regular amount (for example to pay off a loan) or could be a variable amount (for example based on mobile phone usage, or electricity usage). At the time of the independence vote generally direct debits coming out of Scottish bank accounts would be taken out in Sterling. Let's use the example of a fixed price electricity tariff of £50 a month. There would be two options with direct debits. The first is that the company holding the mandate (in this example the electricity provider) may choose to offer to re-denominate the direct debit from Sterling to the new Scottish currency. This would probably involve the business setting up a bank account in the new Scottish currency. The customer could then switch the currency of the direct debit at the time they re-denominated their bank account. The second option would be for the customer choosing to switch electricity supplier (using a utility provider switching website) to set up a payment plan in the new Scottish Currency for those companies that do not offer payment in the new Scottish Currency. Those people without access to the internet should be offered assistance to ease the switch of utility provider. Setting the new Scottish currency to be an equivalent currency to Sterling during the transition period would allow this process to take place at any point through the transition period.

Cash ISAs are savings accounts which have no tax levied on the interest earned from the savings. They could be converted to the new Scottish Currency using the same arrangements as other types of bank accounts. If the ISA Account was converted to a Scottish Pound savings account then it can be assumed that the UK government would probably no longer recognise it as a UK Cash ISA account and any tax arrangements associated would be based on the decisions of the Scottish Government. Securities ISAs are investments in funds, gilts, equities or corporate bonds. They are often sold as funds with the fund manager making the investment in the actual underlying assets.

Irrespective of the Scottish currency introduction, the currency of the underlying equities and bonds would stay the same as they would become holdings in stock listed on a Stock Exchange (unless of course the underlying assets were re-denominated). These could continue to be held as units of a Sterling invested fund (in the same way that UK citizens can hold investments denominated in US Dollars, Euros or Japanese Yen); so there is no necessity to re-denominate these. However, the holder would have to accept the exchange risk against Sterling if they wished to sell them and receive the proceeds in the Scottish currency if and when a Scottish currency was allowed to float freely.

Under the current ISA regulations of the UK Government, an ISA holder that moves abroad (i.e. ceases to be resident in the UK) can continue to hold any existing ISA accounts. Therefore any resident of Scotland who owned an ISA at the time of independence and who chose to keep it, could do so and would continue to enjoy the tax free arrangements associated with the ISA product. So there is no necessity to re-denominate ISAs and depending on the new Scottish Government's attitude to tax- free investments it may make more financial sense to leave them denominated in Sterling.

There may be different treatments for mortgages based on the time of final repayment of the mortgage. For example for a mortgage where the final repayment is made during the transition period, the lender repaying the mortgage may choose to pay it off in Sterling; whereas for a mortgage that will be paid off after the transition period, the lender repaying the mortgage may choose to convert the mortgage into the Pound Scots or continue to keep the mortgage in Sterling. For a conversion during the transition period the re-denomination rules of equivalence would apply. As with other types of bank account it will be possible to convert from a mortgage provider that is not offering Scottish currency mortgages to one that is.

However, there may be lenders who are locked into a longer term agreement (for example fixed interest rate mortgages) or mortgages with early redemption fees where it will cost the lender to convert the mortgage to tPound Scots or the bank will refuse to allow conversion to take place (for example if they feel the Scottish Currency will depreciate against Sterling once the currencies are separated). In these scenarios the lender could either be hit with fees through no fault of their own or they could be prevented from converting their mortgage to Pound Scots (and so potentially paying a foreign currency transaction fee with every mortgage repayment if the Scottish Pound is floated). Consequently, there would be a case (on the basis of fairness) for the Scottish Government either to mandate that all mortgages on Scottish property can be converted to the new Scottish currency or for the Scottish Government to repay any fees incurred by Scottish residents as a result of the conversion of a Sterling mortgage to a Scottish currency mortgage.

In the 2011 census there were 2.4 million households in Scotland of which 34 per cent lived in a dwelling with a mortgage. This gives 816,000 mortgages in Scotland at the time of the census. The fees and charges attached to each of these mortgages will vary but if we take use of an indicative fee to redeem a mortgage early of £1,000 then this cost is potentially a substantial figure of £816 million.

This is of course a very high figure, but it is at the top-end of potential estimates for government help in the re-denomination of mortgages. In reality, if someone redeems their mortgage early to change the currency of the mortgage, then the likelihood is that they will need to replace it with another one in Pound Scots. So they will look to find the best deal from the other mortgage providers in the market. In this scenario a mortgage provider risks losing all of their Scottish loan book as a result of their refusal to offer mortgages in the new Scottish Currency. Consequently, the likelihood is that most mortgage providers will seek to retain their business by offering to convert the currency of their Scottish mortgages to the new Scottish currency to keep their customers.

At this stage all the necessary banking arrangements would be in place to enable people to hold bank accounts, make payments, transfer mortgages and so on. The next stage is to introduce the physical money, the notes and coins. It is worth just stating at this stage that the world is not yet ready for a 'cashless society' in which absolutely every payment from buying a pint of milk upwards would be done digitally. Many people remain attached to cash and see it as a reliable fall-back which will always exist. Nor should we underestimate the sentimental, emotional and sometimes nationalistic attachment to physical money as a national symbol – both Eurosceptic campaigners and anti-independence campaigners have used 'Keep the Pound' campaigns which they believe to resonate with a lot of voters. For the time being at least, it is not the moment to move to a cashless society with only digital payments. This means Scotland will need notes and coins for its new currency.

One additional point which it is worth making is that it is hard to underestimate how significant the physical representation of a currency can be for people. There are numerous occasions – from the secession of the Baltic states from the Soviet Union to the creation of the Euro – where the images and design of a new currency became important and sometimes contentious issues. It may not seem a particularly important matter to many of you but in fact getting the imagery and symbolism of a new national currency right may be an important step in gaining the confidence and support of the citizens who are going to use it. A strong suggestion is therefore that there should be a national competition to design the notes and coins. This should be a strong, participatory process.

Perhaps first people should be asked to think about the brief for a new note – asking questions like should it feel old and traditional or modern and fresh, dwell on traditional cultural signifiers or create new ones, have identifiable people and places on them (and if so, which ones) or stick to representations of more general things (perhaps flowers or native animals) or entirely abstract ones. This could help to create a general brief for the design competition. This should of course be open to everyone with leading artists encouraged to enter. But it should also be open to schools, children's groups, art therapy groups and anyone else who wants to participate. Presumably there would be a jury to select a shortlist of designs which might then be publicly consulted on. All of this process should be designed first to create banknotes and coins with which everyone is happy and of which everyone is proud, but also to create a genuine public 'buy-in' to the new currency, which is best able to make them feel that this is something of which they have personal ownership.

The introduction of a physical currency is time consuming. When the Euro was set-up there was a three-year period between the point that the electronic Euro currency came into existence and the physical notes and coins were introduced. Similarly the decision by the Bank of England to introduce a new £5 polymer note was made in December 2013 but the actual note was not introduced until September 2016, just as the new £1 coin was announced in the 2014 budget and entered circulation in March 2017. So an estimate can be made that the introduction of a physical Scottish Currency would take about three years.

One of the reasons for the length of time it takes to introduce a physical currency is the need to change vending machines and ATMs. There will also be a cost associated with the recalibration of vending machines and ATMs for the new notes and coins; for example the Automatic Vending Association have said the cost of introducing the new 5p and 10p coins in 2011 was £28.9 million and the cost of introducing the new £1 coin is estimated at £32 million to ensure that the estimated 500,000 vending machines in the UK can accept the new coin. It should be noted that replacing a whole currency allows vending machines to be upgraded for all notes and coins at the same time so this cost is not magnified by the number of new notes and coins being introduced. Therefore it can be expected that this cost for Scotland would be of the order of £5 - £10 million and could be reduced as many newer vending machines can be re-programmed to accept a new coin (or set of coins) rather than need to have their mechanism physically changed.

In the same way that establishing an equivalence between Sterling and the new Scottish currency will simplify the introduction of the new currency; so maintaining the same value for the coins and notes that will make up the physical currency will simplify its introduction (for example a £1 coin will be replaced by a 1.00 'Scots' coin). This will mean that shops will not need to change their tills as 1.23 'Scots' will be held in the same compartments as £1.23. Consequently the simplest introduction of a Scottish Currency would be a decimal Scottish Pound made up of 100 cents. The notes and coins of this currency would be: one cent coin, two cent coin, five cent coin, 10 cent coin, 20 cent coin, 50 cent coin, one Scottish Pound coin, five Scottish Pound note,10 Scottish Pound note, 20 Scottish Pound note, 50 Scottish Pound note and 100 Scottish Pound note.

The most recent precedent for introducing a new physical currency is Slovakia switching to the Euro in 2015, which all happened over a two-week period. If this model is taken, the physical Scottish currency should be planned to be distributed to banks, credit unions, ATMs etc. prior to the two-week period. A service offering exchange of notes and coins to businesses should then be in place for the two-week period and thereafter the physical currency used in Scotland would be the new Scottish Currency.

When a central bank issues bank notes it does so at a profit based on the difference in the cost of production of the notes and the face value of the note. This is known as seigniorage. In its 2016 Annual Report the Bank of England give a figure of £462 million in net seigniorage income based on a value of £67,818 million of notes in circulation. At the same time the three authorised banks in Scotland (Clydesdale Bank, Bank of Scotland and RBS) had a total of £4,462 million worth of notes in circulation. Based on these figures the value of Scottish bank notes in circulation was roughly 6.6 per cent of the UK notes in circulation. Based on this very rough calculation the seigniorage income to a Scottish Central Bank would be around £30 million.

Studies associated with the introduction of polymer notes in Australia put the cost of production of a polymer note at around 17 Australian cents (roughly 10 pence). The number of notes in circulation in the UK is around 3,500 million notes. Taking a percentage of this based on the value of notes issued by Scottish banks gives 228 million Scottish bank notes. So using the figure for cost of production of the Australian bank notes this would give an estimated cost of production of £23 million for a new set of Scottish bank notes. Obviously there are not the same profits to be made from the issue of lower denomination coins as there are from higher denomination notes but from these figures, based on an investment of around £50 million for the issuance of a new physical currency by Scotland, then the Central Bank would be in profit in less than 2 years.

One point to note is that the Sterling notes and coins exchanged for the Scottish Currency will still have a value as they will still be used in the Sterling area. Thus the physical Sterling exchanged could be used to pay for the costs associated with the new Scottish Currency or alternatively this amount could form part of the foreign currency reserve of the new Scottish Central Bank.

Setting up a central bank, either with regulatory responsibility or in parallel with a financial regulator, and with a properly capitalised foreign currency reserve is the final part of the architecture of the currency that needs to be put in place. This will be discussed in the next chapter. But there is one aspect it is worth mentioning at this stage and that is setting up the country code to be used for Scottish bank accounts. A country code is needed for international payments. Banks in the European Union are identified by an IBAN (International Bank Account Number). The first two characteristics of the IBAN number identify the country of the bank account. For example IBAN Number GB29 NWBK 000003 123456678 refers to a UK bank account (the country code for the UK is GB), held at NatWest Bank (NWBK), with a sort code of 00-00-03 and a bank account number of 12345678. The country of the bank account is required not only to route a payment from say Germany or Japan to the national payments system but also identify the country of the bank account for any money laundering or sanctions checking legislation.

Country codes are issued by the International Standards Organisation (ISO) and all the obvious two character country codes that could be used for Scotland (or variations like Caledonia or Alba) are already in use. SC is the Seychelles, SO is Somalia, SD is Sudan, ST is Sao Tome and Principe, CA is Canada and AL is Albania. Therefore a decision would need to be taken regarding which country code to use before Scottish bank accounts could begin to be opened.

With this, and the central bank and regulatory functions in place, the architecture and implementation of a new currency would be complete. But it is then important that steps are taken to ensure that a new currency is a success. There are a number of steps which the National Commission and the Scottish Government (both at the time of transition and the early years of independence) can do to help ensure that success. Perhaps the first is that a new tax system for Scotland should be designed to be paid in the Scottish currency – and these (and legal fines) should be mandated to be paid in Scottish Pounds as early as is physically possible – which could be as early as when a digital currency is first set up. To ensure this happens not only at a central government level but also at a local government level, a deadline should be set for all local taxes to be collected in the new Scottish currency a year prior to the final introduction of the physical Scottish Currency and the end of the transition period. It will mean investment in IT infrastructure at both a central and local government level and this will be discussed later. However, as some people do not have bank accounts and there may be some other special cases prior to notes and coins being available, some flexibility in this will be necessary.

As equivalence would exist between Sterling and the new Scottish currency then the fact that many Scottish people were paying taxes from a Sterling bank account would not be a problem as there would not be any foreign exchange transaction costs for tax payers until any date that a Scottish currency was freely floated. However this will put pressure on people reluctant to re-denominate their bank accounts to the new Scottish Currency to do so as the end of the transition period approached as after the end of the transition period any tax or legal fine payments to the central or local government could attract a foreign currency transaction cost.

In a similar way to taxation, if all social security payments were made in the new Scottish Currency this would help normalise the use of the new Scottish currency; especially for payments made into a bank account (which is mandated for Universal Credit). If all payments were made in the new Scottish Currency then this would ensure that the new currency was quickly adopted; not only by welfare recipients but also by the business whose income depends on the trade from the welfare recipients. Thus based on activities entirely within its control (taxation and welfare) the Scottish Government could ensure the widespread use of the new Scottish Currency.

As there would be equivalence between the new Scottish Currency and Sterling during the transition period then prices in shops would be the same on the first day that the physical Scottish Currency was introduced as they will have been in Sterling on the day before. This will ensure we avoid the creeping inflation that has taken place at the time of some other currency conversions (such as UK decimalisation in 1971). It will also make the conversion easier to understand as an item in a Pound shop costing £1.00 will be priced at 1.00 'Scots' once the new Scottish Currency has been introduced. This will ensure that on the day of introduction of the new currency the new prices are easily understandable (they are the same as the old prices), costs to shop keepers are reduced (they do not need to re-price all their stock) and there is no scope for hidden price changes.

As with shop prices, on the final day of the transition period the initial price will not be different between a Sterling price and a Scottish currency price. However any commercial website that displayed prices would need to be changed to indicate the prices are in Pound Scots rather than Sterling. This could be done in one of two ways. If the website displays currencies in a number of different currencies (Sterling, Euro, US Dollars, etc.) then the new Scottish Currency will need to be added to the list of currencies and an exchange rate against the base currency applied.

If the website is previously only in Sterling then either the website will need to be amended to explicitly state that prices are in the new Scottish currency or enhanced to show prices in both Sterling and the new Scottish Currency (which will be the same initially but could be different if the Scottish currency floats). As prices (and stock) change over time then this would not be an onerous task for any business (as it can be assumed that no business would keep its prices the same indefinitely) except where it chose to introduce a separate Scottish website. However given that a number of different factors could trigger the need for a separate Scottish website (taxation rates, specific legal wording, data protection rules, etc.) this would be an investment that would be triggered by other policies implemented after independence rather than by the adoption of a separate currency.

As Sterling will continue to be a valid currency following the introduction of the new Scottish Currency then any existing business contracts priced in Sterling would continue to be valid in Sterling unless they were renegotiated. Now while it would make sense for a contract between two Scottish companies or between a Scottish employer and Scottish employee to be renegotiated in the new Scottish currency there would be no legal obligation to do so. Where one party belonged to the remaining part of the United Kingdom from their perspective it may make sense to continue to price the contractual obligations in Sterling as this will reduce their exchange rate risk if and when the Scottish currency is floated.

For example while the contract between a baker in Kilmarnock and a shop in Ayr could be changed from £50 per 100 loaves to 50 'Scots' per 100 loaves quite simply by mutual agreement (as the baker will pay its staff in the new Scottish currency and the shop in Ayr will sell the loaves in the new Scottish currency) the supplier of flour to the baker that was based in Lincolnshire may be less willing to renegotiate the contract from

Sterling to the new Scottish Currency. If the contract for flour specified a price in Sterling then it would need agreement from both parties to begin to pay in the Scottish currency. Therefore the currency of the contract would probably come down to the bargaining strengths of the companies engaged in the contract. However it can be assumed that if Scottish taxes and social security obligations were payable in the new Scottish currency, then it would be expected that most employees of Scottish companies that were resident in Scotland will have their employment contracts converted to the new Scottish currency.

Limited companies are not registered in the United Kingdom. They are registered under Scottish law or English and Welsh law. Scottish companies can be identified by ‘SC’ preceding their company number. Many Scottish companies currently file company accounts in Sterling. There is no obligation to file in Sterling, the requirement is to file the accounts in the local currency of the company (the currency most of the company’s transactions are carried out in) which for most companies in Scotland is Sterling. In the future, assuming similar rules continue, then for many companies registered in Scotland the accounts will need to be submitted in the new Scottish currency. However, the Scottish Government could require companies registered in Scotland to make returns in the new Scottish currency as all taxes will be liable in that currency.

During the transition period between the vote for independence and the introduction of the new Scottish currency companies could convert from reporting in Sterling to reporting in Scottish Pounds. Assuming an electronic version of the Scottish Currency was introduced prior to the introduction of a new physical Scottish Currency then companies registered in Scotland could pass a resolution to convert their books from Sterling to the new Scottish currency in readiness for the final currency switchover. As the numbers would be the same the conversion would simply be a 1:1 transfer from Sterling to a Scottish currency to maintain transparency and accuracy within the company accounts.

The final issue to consider here is the re-denomination of Scottish public debt. This is a complicated legal matter which there is not space to examine properly here. The basic position is that after independence Scotland would probably carry some public debt which is denominated in Sterling. The broad legal principle is that it is a nation that controls its own money and so if it adopts a new currency then the debt it holds becomes denominated in that currency. Any new debt could certainly be denominated in the new currency, but there might be a legal challenge if the Scottish Government chose to re-denominate existing UK-derived debt from Sterling to the Scottish currency. In effect this would mean that payment of any debt from Scotland to the UK would end up in a different currency than the UK’s debt is held, and this might be challenged by the UK. It could be resolved if

Scotland agreed to pay that debt in Sterling, or potentially if Scotland agreed a different form of 'debt-settling' with rUK (to be discussed later). This would be a matter for negotiation and potentially legal opinion.

The introduction of a Scottish currency is perhaps the definition of 'hard', not 'difficult'. Every step is well understood and has extensive precedent. None of it is 'experimental' or untried. It of course involves a lot of specific actions, from changing IT systems at the heart of central government to adapting the vending machines in a rural sports centre. But none of them are unusual or unfamiliar. The job is a matter of harnessing expertise and effective project management. Once this is properly understood, fears of adopting a new currency should dissipate.

Getting central banking right

If Scotland is to have its own currency – and probably even if it isn't – establishing a central bank is essential. Most people know there is a central bank in most countries, but perhaps people have a less clear understanding of what it is and what it does. So the first thing to be clear on is that, with a very few exceptions, central banks are nothing like normal commercial banks and in the vast majority of cases have no market commercial activities. These are public bodies managing the money system on behalf of the public

One of the oldest and most substantial responsibilities of a central bank is the issuing and backing of currency. As explained in the last chapter, there is a difference between the cost of creating money (printing notes or minting coins) and the face value of a note or coin. Traditionally the bank would keep the difference between the cost of creation and the face value, a practice known as seigniorage. This profit was used to fund the bank and to help it build up reserves of money which help it manage the money system.

This is still the system used today. If a retail bank wishes to issue currency, such as a banknote, that it doesn't currently possess, it must make an electronic deposit with the central bank to that face amount. The central bank is then able to deposit the money in an interest bearing account and earn an income until the issuing bank returns the banknote and requests the return of the capital (this fulfils the 'promise to pay the bearer on demand' seen on many UK banknotes). In practice, the coins and notes are often only returned when they become too worn to use and are simply exchanged for brand new coins and notes. Scotland continues a practice now unusual amongst countries in that it maintains multiple note-issuing banks (where notes issued by the Bank of Scotland, Royal Bank of Scotland and the Clydesdale Bank are accepted alongside Bank of England notes – though coins remain the sole issue of the Bank of England). These notes are still fully backed by deposits in the Bank of England and if an independent Scotland chose to continue the practice of allowing these 'commercial banknote' issues under its own currency regime it would be logical to assume a similar system could be put in place.

The next role is 'clearing' (also briefly discussed in the last chapter). Clearing is what enables easy transfers of money in a complex modern economy where many different banks and lenders are constantly transferring money between each other and many businesses also take electronic payments for goods. To make this work smoothly the central banks often provide a clearing function by which the banks record their various trades through the day and then settle them at an agreed time, with the central bank making itself available as an intermediary to ensure the efficient settling of all of the accounts. In practice, central banks are not the sole provider of clearing functions - commercial banks and specialist clearing houses also provide such services - but the central bank remains a key component of the process with several advantages over commercial banks such as unlimited access to liquidity (as the central bank defines money supply), the ability to define the cost of transactions (by being the controller of the base interest rate) and its inherent competitive neutrality (by being apart from the commercial banking sector).

Another of the roles of a central bank is regulation. Here even 'independent' central banks act in a pseudo-political way, working closely with government. The modern world is one in which the financial industry is both highly complex but also now make up a substantial proportion of modern developed economies – about seven per cent of the total Gross Value Added to the UK economy in 2016. For comparison, the oil and gas sector comprised around 6.7 per cent of the Scottish economy in the same year. And on top of this, almost all other sectors of the economy are reliant in some way on the financial industries.

With a sector this size and significance, there is substantial risk that a failure within the sector would have adverse affects on the overall economy of the country so it is important that not only is the sector monitored for risk factors but it is also actively regulated. How this regulation takes place, by whom and how they go about it varies greatly from country to country. In some cases the bank is the regulator while in others (as in the UK) there is a separate financial regulatory authority. However, whatever the relationships it is part of the function of a central bank to monitor and play a part in ensuring the financial health and sustainability of the overall finance sector.

Core to most modern central banks, however, is the concept of 'Lender-of-Last-Resort' where the central bank is the body to which other financial organisations go when in need of emergency support or liquidity (though this is a more recent role – central banks did not act in this way during the 1929 crash for example). For a country with its own currency, this liquidity is almost always available for so long as the government and central bank is willing to support the ailing organisation until any reforms are made and for as long as it is acceptable to deal with the consequences of the support actions (such as any inflationary effects of increasing the money supply through bail-outs). However, it should be noted that this does not apply to foreign debts.

Central banks also have an interest in balance of trade. In theory, if you import more than you export you are continually sending money abroad and so you would continually run down your financial reserves (though in practice there are ways of reducing or disguising this effect). While complex international trading patterns have made the issue of balance of trade much more complicated, nevertheless central banks traditionally have a role of monitoring and managing the implication of trade imbalances. But if the focus on trade stability has decreased, the focus on price stability has increased.

Price Stability is now considered one of the foremost objectives of many modern central banks. Inflation is monitored closely by central banks as it can have negative effects on the economy if it reaches extreme levels. If inflation is positive – goods become more expensive or if a defined cash value buys fewer goods and services – then the value of a fixed income reduces and people can find their cost of living increasing. The value of savings is also eroded (especially if inflation exceeds the rate of return of the investments or interest on the savings) although the value of a debt is similarly eroded. However, in a deflationary period, the economy can be negatively affected as well. If prices are declining for an extended period of time then consumers may defer spending in the present in order to buy the same goods cheaper later which, if enough people do it, can cause stagnation in the consumer economy and result in a rise in unemployment.

Many central banks therefore define price stability as an extended period where the annual inflation rate is close to two per cent which is supposed to have the effect of allowing those with savings to maintain the value of them whilst allowing prices to rise just fast enough to stimulate spending in the economy. The primary tool that central banks maintain in order to manipulate the rate of inflation is their monopoly control of the state's base interest rate (this is the rate at which the central bank lends funds to other commercial banks and so sets a baseline for what rate banks can lend to others). By increasing the interest rate, loans become more expensive and savings become more profitable so spending becomes discouraged which reduces demand in the economy thus should reduce prices.

The opposite case is also intended where a reduction in base interest rate encourages lending and spending which is intended to increase demand in the economy. But with UK interest rates having been at close to zero for an extended period, other tools are increasingly being required to help maintain the economy. The outright printing of money is generally discouraged by conventional bank policy as whilst it can increase the money supply in the short term, if no measures are taken to reduce supply afterwards then inflation and/or a drop in currency strength can occur which reduces the real value of the total money supply back to the pre-printing levels (and leaves anyone who couldn't acquire any of the extra money poorer for it). The conventional alternative, as has been in practice since the 2008 financial crisis, is the idea of Quantitative Easing or QE. This method involves the central bank creating money (in this case digitally rather than by printing currency) and using it to buy government bonds from the open market. The aim is to move people away from investing in government bonds into other kinds of investment which would have the effect of lowering interest rates without having to reduce the base rate of interest below zero (which is largely done by deliberately inflating the value of other assets such as housing or shares).

While there are very substantial criticisms of QE and its impacts (virtually none of this 'new money' has made it anywhere near individual citizens as consumers and in fact it has hit them through impacts like rising housing costs) it shows that central banks have a wider range of tools at their disposal than had been assumed in recent decades.

So these are the primary roles of a central bank – issuing currency, providing clearing services, acting as lender of last resort, being part of a regulatory and monitoring framework and monitoring and managing issues like trade deficits and price stability using a range of monetary tools which is increasing in scope. If Scotland is to set up a new central bank which works to secure Scotland's economic future, it must be well equipped to play all these roles.

But there are a number of decisions on the structure of the bank which need to be decided. The first is its level of independence. The independence or otherwise of central banks around the world is a very varied picture, with everything from utterly private and profit-distributing banks over which government has little control to central banks which are pretty indistinguishable from departments of government – though it is absolutely the case that there has been a strong tendency away from these extremes.

The biggest trend in the couple of decades running up to the 2008 financial crisis was towards central bank independence. This was largely because of the widespread belief that monetary policy was best handled as a 'ideology-free issue of technical management', but also because of some history in Europe of governments linking central bank policy to electoral cycles, such as by loosening monetary policy and creating unsustainable booms in the run-up to elections. However, the idea that monetary policy is purely a technocratic, non-political issue has been somewhat exploded by the 2008 financial crisis in which central banks required coordinated political action to save financial systems. So the arguments on degree of independence from government are in no way 'settled', with even the Bank of England (which is often seen as a particularly independent bank) having some of its key appointments – including the appointment of the governor – being made by government.

In making this decision, one of the prime considerations for Scotland is that within the European Union it has been a legal requirement since 1992 that both the European Central Bank and the central banks of the EU member nations should all be independent of both the EU and of the governments of the member states and this remains true, at least on paper, to this day. Indeed, the EU has a definition of independence which the central bank in Sweden does not meet, meaning Sweden can't join the Euro. However what precisely is meant by Central Bank Independence is itself subject to some debate. Studies have found that there are wide ranges of views among existing central banks about what independence means.

There appear to be eight main features of independence – ability to implement policy, ability to form policy, working to legally- (as opposed to politically-) set mandates, ability to set objectives, inability for government to impose decisions of any sort, guaranteed terms of office for senior staff, no deficit finance (bank can't be made to print money to cover government deficits) and the ability to communicate without restraint. However, very few existing central banks think that some of these factors are actually important to their independence (only eight per cent think they need to be allowed to communicate without any restraint to be independent) and almost none of them have all these features. So there is clearly quite a big gap between saying that a central bank should be independent and defining exactly what that means.

And this is becoming more confused rather than less so. The post-financial crisis era has seen the EU accept a lot of actions which either break or substantially stretch the definition of 'independence' or which allow the issue to be sidestepped altogether. There are increasing questions about the democratic accountability of these large and crucial institutions which were (in part at least) supposed to prevent the financial crisis in the first place. This has prompted a substantial debate about the future of central banking with ideas like 'narrow banking' (where risky parts of the finance sector are 'quarantined' such that they can be allowed to fail without the rest of the financial system being harmed) gaining ground.

Another decision which will have to be made is about the ownership and governance of the bank – and here again there are a range of options and the variations between existing central banks are wide. In some countries (for example the USA) the bank is entirely privately owned. In others, ownership is mixed (Greece, for example, forbids the state from owning more than 35 per cent of the central bank's shares). In others still (such as the UK) the bank is wholly owned by the State. The board directors and the bank governor may be appointed by the governments, by the directors themselves or – in the case of monarchies – by the Crown. In the UK, with its largely symbolic constitutional monarchy, the Directors select and recommend their preferred Governor to the Prime Minister who in turn recommends the candidate to the Crown who makes the formal appointment. In theory either the Prime Minister or the Monarch could select their own candidate over the recommendation of the board but this would carry significant political consequences and, in practice, would likely be considered an extraordinary event. As the bank carries a great deal of responsibility and because people in power normally appoint others to centres of power with whom they are comfortable, it is often the case that appointees are drawn from within fairly tight circles of banking and economic academia. This can be compounded by the often highly technical nature of the role which can demand previous expertise in the field as a prerequisite for selection.

Some countries (such as Portugal) recognise that such closed circles can easily become victims of closed thinking or can lack in representation from other sectors of the economy and therefore institute requirements for a more broad 'stakeholder' style board whereby representatives from trade unions, agricultural bodies and other economic sectors must be represented. Banks may employ multiple boards for this purpose such as a policy or implementation board which draws on specialised expertise alongside a broader advisory board which can contribute towards policy without requiring the narrow technical knowledge required for implementation.

Finally the relationship between the governor and the board varies. Some banks will treat the board as merely an advisory body with the governor's eventual decision being final whereas in others, decisions are placed to a vote or the governor may be over-ruled (although this may trigger a loss of confidence in and the resignation of the governor). Ultimately, the model and structure of a central bank is clearly able to be flexible to the needs of its host country and that no single 'correct' model can be identified.

It has been worth dwelling on these questions at some length to indicate the kinds of decisions which must be made in setting up a bank. It is not the place of this book to come to conclusions on these issues, other than that throughout it is assumed that stakeholder governance models tend to work better than non-stakeholder governance models, that core social functions are never really entirely independent from each other and must be able to be successfully coordinated and that democratic accountability is absolutely key to developing trust, and trust is essential in establishing a new nation.

There are a number of substantial decisions which have to be made here and they will shape and influence the future of Scotland for decades to come. It is essential that these decisions are well made. Leaving them to the last minute or making them in closed rooms of finance sector professionals would be a disaster. Ideally, we would have had a proper debate about these questions well before an independence referendum such that the broad outline of the structure, governance and independence of a Scottish Central Bank are known and understood prior to a referendum. This would enable the National Commission to work from a clear mandate to flesh out the arrangements through consultation. If the debate does not take place before Scotland votes for independence, the urgency to resolve them will multiply and the risk of bad decisions being made will increase.

It should be obvious from the range of structures and functions of central banks that there is also a range of logistical issues involved. As a shorthand for this it is worth being aware that there are a very large range of running costs of central banks. While there is some evidence of some benefit of economies of scale (that bigger nations spend less on central banking proportionately than smaller nations), this is not very large and the much bigger factor is what the bank is set up to do. The more interventionist and regulatory, the more staff and resource it needs; the more hands-off the bank, the fewer staff and less resource it needs. It is obviously not the case that less is automatically better – if a slightly higher regulatory capacity helps to prevent financial crises it is money well spent. However, cost is not really particularly crucial consideration since central banks make profit through their activities (both through investments and seignorage) and are almost all expected to be self-funding with little or no subsidy coming from public budgets. The focus should therefore be on getting the structure, design and function of the bank right.

Again, creating the central bank is not actually a particularly complicated process since it is again largely a process of finding good staff and placing them in a well-designed structure. The major task is therefore simply the recruitment of senior staff with the required skills and international reputation as well as sharing the vision of a successful, independent Scotland. In terms of skillset and governance development both the IMF and the EU have an established track record of aiding the development of the financial and macroeconomic sectors of the post-Soviet countries of Europe. Additionally the Bank of England has long produced a detailed series of handbooks and training packages designed to assist emerging market economies in the post-Soviet as well as African and South American regions.

The motivation for this assistance comes about via the mandate these organisations hold to ensure and encourage stable economic conditions and thus exists above and beyond the political concerns which often dominate disputes and debates in the run up to major decisions such as an independence referendum. Whilst a constitutional underpinning firmly places the requirement of a central bank on a statutory footing and grants the organisation its mandate, it still allows a significant degree of scope to discuss, adapt and change the structures of the bank as required by the circumstances the country finds itself in.

Given this rough model, it is possible to make an estimate of the cost of establishing a central bank based on the running costs of other central banks. A stakeholder-governed independent central bank with a strong regulatory function (or in parallel with a strong regulatory agency) could be expected to cost not less than about 0.09 per cent of GDP to run per year. This comes to about £140 million per year for Scotland, although a budget or anywhere within a factor of two to three of this figure would be reasonable depending on the level of responsibility granted to it. A slightly more regulatory bank might have an illustrative budget of £200 million per year. Scotland's central bank would therefore be similar in size to that of the banks of Finland, Sweden, Poland or Portugal in absolute terms and similar to Belgium, Czechia or Lativa in terms of percentage of GDP. For this budget, Scotland could expect to create between 350-550 full time equivalent jobs. Of course, the precise staffing level would be dependent on the eventual activities of the central bank. It goes without saying that the economic benefit to wherever is chosen to host the central bank by the provision of these highly skilled jobs will be substantial.

The establishment of a central bank is therefore predicated on two primary tasks. One is recruitment of staff. The other is of making firm decisions about the form and structure of the bank as soon as possible. Given an effective recruitment plan, designing the bank well is therefore the most important task in making it successful.

Backing our new currency

When you have your own currency and that currency can be traded internationally, the value of that currency can rise and fall. If you want to keep it 'pegged' to (maintaining the same value as) another currency or if you simply want to influence the international 'purchasing power' or 'export cost' of your currency, you need to be able to manipulate the value of that currency. And if currencies rise and fall in value, it is possible for speculators to make money betting on whether a currency is going up or down. This in turn means that some speculators might want actively to try and manipulate the value of your currency themselves so they can then profit from the value change (often betting that a currency will fall in value and then trying to cause that currency to fall in value). This is usually known as a 'speculative attack' and the best way to deal with it is to be able to manipulate the currency value in the other direction.

In fact, more accurately, the best way to deal with speculative attack is to make sure that everyone knows you have the capacity to protect the value of your currency if it comes under attack. Speculators have to risk large amounts of money to manipulate the value of a currency (they have to buy and sell large amounts of that currency) and so if they think that major investment will be lost because the country whose currency they are manipulating can protect itself, they won't attempt the cost involved in the first place. And in the case of Scotland, the fact that it will be a fairly small currency by international standards means that the scope for making a significant profit is low (there simply would not be that many Scottish Pounds in the international currency markets on which to make a speculative gain). Scotland simply needs to be able to deter speculative attacks slightly beyond the level of profit which a currency trader could make from that speculative attack.

The primary way to protect your currency is to have a foreign currency reserve. This is a very large reserve of money that you hold in currencies other than your own – for example, most of the UK's foreign currency reserve (known as the Exchange Equalisation Account) are held in US

Dollars, Japanese Yen and Euros. You can then use this fund to increase or decrease the value of your currency in relation to the currencies that you hold. For example, if you want to increase the value of Sterling against the value of the US Dollar, you can sell the US Dollars in your reserve fund and buy Sterling with it. This increases the demand for Sterling and so increases its value. On the other hand, if you wanted to decrease the value of Sterling against US Dollars you would sell Sterling and buy Dollars. This would dump greater volumes of Sterling onto currency markets and thus reduce the value of each unit of Sterling.

Of course, there are other reasons for a currency reserve, and perhaps primary among this is to 'back' the national currency. That is to say that there are internationally-recognised assets (held in a form other than the domestic currency) which can then be used to guarantee that there is real 'value' behind the currency. This is something like the way gold was held which could in theory be exchanged for the currency, thus giving the currency 'inherent value' (it's not just paper, it's a promise to convert the value written on the paper into an asset which has undeniable value). Post-gold standard that means that you have currencies other than the currency you're backing which in theory can be used to give value to your currency.

There are also other reasons for having a currency reserve. There are lots of overseas obligations a country will have - from maintaining embassies to overseas visits by government politicians. These costs will be paid in a foreign currency and so holding some reserves of these currencies is necessary. If there is any form of banking crisis in one country, it may be necessary to step in and meet any foreign currency obligations banks have which might impact on Scotland's financial reputation (though if this is done in an independent Scotland the blatant mistakes which were made in the UK banks bailout must not be repeated).

That is an important potential role of a currency reserve, particularly if any kind of banking crisis led to currency devaluation. A currency reserve is also a general reserve of money which can be drawn on in the event of emergencies and disasters. If a major weather-related disaster hit Scotland, bringing substantial emergency costs with it which had to be met in a foreign currency, a currency reserve would be there to act as a buffer, absorbing emergency costs without affecting public finances. And finally, a currency reserve is also potentially an investment fund. Clearly, if too much of the fund is tied up in investments it is, by definition, not a reserve ready for emergency use. But almost all currency reserves will, at least in part, be invested in profit-returning activity.

So how much currency reserve would an independent Scotland need? There is no precise answer to this question. Traditionally the rule of thumb was generally taken that a country should have a reserve of about three months' worth of the cost of all imports or big enough to cover all short term debts. For Scotland that would be about £6 billion. However, as the scope of currency reserves has expanded and the financial markets have become more volatile, that would be insufficient. Post-financial crisis, this is complicated even further by the extent to which a nation state is willing to bail out its banks. This is a costly business and the expectation of whether or not bank bailouts would be complete and automatic will now be crucial to any nation in deciding the size of its reserves.

There is therefore no 'formula' which can be used to identify the 'correct' size of reserves for Scotland, and no way to know exactly what kind of economic and banking policy a future Scottish Government would pursue. So one option is to look at other countries and benchmark against them. If we take EU countries which use their own currency rather than the Euro as a benchmark, we still find variations of reserves equalling between about 48 per cent of GDP (Bulgaria) to 5.69 per cent (the UK). If we pick some other international comparisons, we also see a range, from 0.64 per cent of GDP in the US through a bit over five per cent for Canada to New Zealand which has reserves of nearly ten per cent of GDP. Some countries have very clearly policy-related reserves, such as China which has enormous reserves representing over 27 per cent of its GDP, but this is a nation which aims to run a permanent trade surplus.

All of this means that we simply have to make a judgement on the size of reserves for Scotland, and so here a 'high average' of developed countries like Scotland will be used – so about 20 per cent of GDP (nearly four times the size of the UK's reserves). This would mean a fund of about 40 billion US Dollars. This should be more than sufficient for a strong, developed economy like Scotland's, even allowing for the 'new start' nature of our currency and national institutions after independence.

In trying to work out how to build up a currency reserve, the next question is 'in what balance of foreign currencies should Scotland hold its reserves?'. Most currency reserves will be made up of the reserve currencies of the IMF – the US Dollar, the Euro, the Chinese Renminbi, Pound Sterling and the Japanese Yen. There are lots of ways that the make-up of currency reserves could be established, but the model used here is based loosely around Scotland's main trading partners and how much we trade with them (with some adaptation to achieve a more stable basket of currencies and to reflect likely changes in trade after independence). So it is suggested that we aim to hold about 40 per cent in Sterling, 25 per cent in Dollars, 20 per cent in Euros, 10 per cent in Renminbi and five per cent in Yen.

So how would we build up that reserve? The first step would be Scotland's inheritance of its share of the UK's currency reserves. That would immediately give us £6.5 billion in Dollars, £6.5 billion in Euros and about £3.25 billion in Yen. Then next step would be to use the Sterling notes and coins in circulation. When the new currency is created, these will be exchanged by citizens over the transition period. But because the new currency is quite literally based on printing new money, the 'old money' (the Sterling it replaces) will still exist and still have value. So when this money is brought in and exchanged, a Scottish central bank can simply keep that money. If that money was put into circulation it would create inflation and might devalue the Scottish Pound. But if it is kept in a currency reserve it would not have this effect. That would at minimum create something close to £3 billion in Sterling which would be added to the reserves.

The next step is to recognise that central banks are not in competition with each other but all rely on a stable international money system. Just as Scotland would want to hold Sterling in its reserves because it trades extensively with the rest of the UK, so the UK would want to hold Scottish Pounds as part of its reserves because of the substantial liabilities of Scottish citizens to UK financial institutions which were lent in Sterling but would be repaid in Scottish Pounds. This would result in a currency 'swap' where each side would agree to create currency which the other would hold, on a like-for-like basis. This swap would begin larger because both sides would wish to protect banks through the transition period and beyond but would be likely to reduce gradually after that.

The swap would take place probably on an annual basis – it would be a 12-month swap which would be renegotiated at the end of each year. Initially it is reasonable to expect that this swap would be in the order of £10 billion. The Bank of England would then have enough Scottish Pounds to fulfil the foreign currency obligations of its banking sector and visa versa. The Scottish Central Bank would not have to borrow to secure this money as it is a swap and Scotland is creating new currency. Since Scotland and rUK would have an ongoing mutual desire for currency stability there would be likely to be an agreement that this swapped money would not be used in the market in any way that would influence the other country's currency value. The same process would be likely to be taken up by other trading partners who would wish to hold some Scottish Pounds in their own portfolio of reserves. But this is not going to be factored in here as there is a risk of over-optimistic assumptions of how much this would amount to.

The next step would be for the Scottish Central Bank to issue a series of Euro-denominated securities in a range of maturities. These are a kind of 'bond' issued by the bank which would run for between one and ten years (issued in Euros because the return on Euros is low so would cost Scotland less). This in total could raise about eight billion Euros, half of which would then be invested in Dollars and about a quarter in Renminbi, leaving a quarter in Euros. Because these are a kind of bond the Scottish Central Bank would need to pay interest on them (they are, in effect, a form of borrowing). So how much would that cost? The first thing to say is that these reserves would be likely to be invested and so generate a return. A premium of about one per cent above what would be raised by investing them would be a reasonable assumption. This is the only part of the currency reserves which would be ‘borrowed’, they would be the only part that would have an annual cost to the Central Bank. This would mean that the total amount Scotland would actually pay for its currency reserves would be about £70 million a year. To put that into perspective, Scotland currently pays about £500 million a year to the Bank of England to pay for its currency reserves (which, incidentally, is primarily to create a safety net for the City of London).

The final step would be to convert about 1.2 billion Yen into Renminbi. If all of the above was done, Scotland would have currency reserves (in US Dollars) of $15.2 billion Sterling, $10.9 billion Dollars, $8.7 billion Euros, $3.4 billion Renminbi and $2 billion Yen. This would produce the reserves of over the $40 billion proposed and in ratios between currencies close to the target. This now means that Scotland would have reserves large enough and spread enough between currencies to deter speculative attacks, back the currency and underpin a domestic banking system with ‘lender of last resort’ powers. As a side benefit, it would achieve this while at the same time saving more than £400 million per year on what it is currently costing Scotland to underpin Sterling and the UK’s banking system. This, with a currency introduced and a central bank set up, is the final piece of Scotland’s currency jigsaw and creates a monetary system which will be recognised by the rest of the world, which meets the best practice expected in the rest of the world and which would be seen as a solid monetary foundation for a new, independent Scottish economy.

Being a citizen

Major structural changes like building a new monetary system and developing a new constitution are essential and time-consuming tasks which must be started early in the process of creating a new Scottish state if we are to achieve a strong, functioning state in the course of three years. However, nothing is more fundamental to a nation state than what it means to be a citizen – who is a citizen, who can become a citizen and how, how can they get access to both the rights and responsibilities of citizenship and how can we achieve this in a means fit for the 21st century.

While some of these issues will be enshrined in the constitution, issues of the practicalities of being a citizen will change as other factors (such as technology) change. The right to apply for citizenship is a governmental matter and can generally be changed by governments as conditions change (for example, to encourage more or less immigration). In addition, in usual circumstances achieving citizenship is not something which is considered much by people who are born into citizenship. This is different when a new nation is being created because it is important to be clear to everyone that they can be confident of a path to citizenship. It is therefore important to make clear from as early a stage as possible how people will be treated.

This was recognised and addressed reasonably comprehensively in the Scottish Government's 'Scotland's Future' White Paper published during the first independence referendum and there is little about it which requires to be changed. During the three-year interim period people will remain citizens of the United Kingdom and continue to have the rights and duties of British citizenship. The processes of creating Scottish citizenship will be put in place over the transition period and on independence day those eligible for Scottish citizenship shall automatically become Scottish citizens. This would mean gaining access to a Scottish Citizen ID (a replacement for a National Insurance Number which is explained further below). This would then give citizens all the rights and responsibilities of citizenship including the right to access public services, the right to a passport, the right to vote in elections, the duty to pay taxes as decided by the elected government of Scotland and so on. In effect (as we shall see in the chapter on IT systems), existing users of public services will already be migrated to the new IT systems of a Scottish state by the time of independence and so there will be complete continuity over the period of independence such that no-one should experience any differential access to all the aspects of citizenship (the situation of Scots abroad shall be considered later).

So who will become a Scottish citizen? Citizenship shall be automatic for those who are currently British citizens and habitually resident in Scotland and for any British citizen born in Scotland but currently living outside Scotland. These groups shall automatically gain Scottish citizenship on the day of Scottish independence. Newborns can then become citizens at birth from any point after independence, and they will always have an automatic right to that citizenship. This will include 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.

The next group of people do not have automatic right to citizenship but have an automatic right to apply for citizenship and to enter a naturalisation process that would lead to citizenship. 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 who are 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 will 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.

There is a range of rules to achieve this entitlement. A migrant and refugee must have been in the country for two years (a refugee will be given a work visa within this two-year period). All applicants must be able to show some kind of evidence that they intend to continue to live in Scotland and that they either have capability in one of the official languages of Scotland (with subsidy provided for language classes if need be) – but there will be no ‘citizenship test’ which has to be passed. Scotland will also have a policy of actively offering a naturalisation process to any student who achieves an honours degree or above in Scotland. Scotland will allow dual citizenship with the UK for any citizen who wishes it – so long as the UK government is also willing to allow dual citizenship (a position it was happy to take when Ireland became independent).

This creates an initial framework of establishing citizenship. Those with an automatic right to citizenship will have that right written into the constitution. Other immigration and naturalisation policies are subject to change according to the democratic elections of future governments – but the set of arrangements outlined above will provide reassurance to current residents of Scotland that they will not be personally disadvantaged in terms of their rights in Scotland should Scotland become independent.

Any Scottish citizen shall have the right to a Scottish Passport, and the National Commission shall be tasked with setting up a passport agency. This is largely a technical process. For passports to be recognised internationally they must conform with standards as set out by the International Civil Aviation Organisation. There are three basic standards. One sets out the style, layout and design of the passport (for example, almost all passports conform to the B7 paper size). Another (from 1980) created basic standardisation of the information on passports to make them machine readable and consistent between nations. These technical standards are available for anyone who wishes to establish a new passport.

A final set of standardisation relate to biometric passports which many nations are now adopting and relates to how that biometric information is standardised in RFID chips embedded in the passports. Allowing for the physical production of the passports, the majority of the task is now a matter of the IT systems which manage the issuance of passports and their close link to records of citizenship. This should be considered part of the overall IT project which will accompany Scottish independence (and will be considered below). It is presumed that existing UK passport offices in Scotland would then be taken over by Scotland upon independence and would provide the same service as before but with Scottish passports.

Once a ICAO-standardised passport is available, this can be read and recognised by any passport authority in the world. This does not automatically mean that a passport will be automatically accepted by any nation and there are a range of reasons why this might be the case. In many instances a prospective traveller will require to secure a specific visa entitling them to enter a country and this would have to be presented alongside a valid passport to gain entry. In more extreme cases some countries may institute travel bans from certain nations, have broken off normal diplomatic relations with a country or be unwilling even to recognise the legal existence of a country. These are all simply matters of ongoing international politics and diplomacy. There is little reason Scotland (if its independent status is recognised by the UK as the country from which it is ceding) would not have good relations with the vast majority of countries to which Scots might wish to travel. For a transition period (until existing UK passports expire) a citizen will still be able to travel on their UK passport.

The next major aspect in creating a secure and orderly system of citizenship is to create some form of citizen identifier. In the UK the most commonly used citizen identifier is the National Insurance Number (though it was technically not created for that purpose). A citizen identifier is simply a means of identifying a citizen more accurately than by name alone (given that many people will share the same name). Such an identifier does not inherently imply any specific form of use of that identifier. For example, it might be that citizens would be required to provide that ID in return for accessing public services, but that need not be the case. Likewise, an ID number could be contained on an ID card which citizens might be required to carry as a means of identification, but there is absolutely no reason whatsoever that this is the case. The ability to identify an individual citizen is an essential part of modern government and therefore of modern citizenship, but any specific use of that identification process is a matter of policy and can change in the future.

However, there are some specific factors that should be considered in the creation of a Scottish identifier. The first is that it is simply not practical to continue to use the UK's National Insurance Number model. While it would be possible for citizens who already have a National Insurance Number to continue to use that number or simply to continue the existing system in Scotland, this will become increasingly untenable as time passes. In future the rUK will be issuing National Insurance Numbers for its citizens as it does now, but it will not be issuing these numbers for Scottish citizens. If Scotland was to continue to produce some version of these numbers running in parallel with a UK system, there would appear a high likelihood of constantly increasing confusion and complication as two apparently identical systems actually diverge further and further. It therefore makes sense to create a new system of citizen identifier from the beginning (though those with dual citizenship will still be able to use their existing National Insurance number, for example to access pension entitlement).

This brings an added advantage, which is that a system of citizen identification can be created which is very specifically fit for purpose for the 21st century. Identity underpins much what people want from the public realm – effective, efficient, seamless delivery of public services which are responsive to their needs and give them a degree of control. This is to create a person-centred approach to delivering services to citizens. To achieve this it is helpful to consider exactly what a citizen identifier really is. In the modern world and in modern government, almost all of the information stored and many of the actions and processes which are enacted are held or carried out digitally and therefore are conceived of in terms of 'data'. In the health service, patient 'records' are increasingly treated as elements of 'big data'. The same is true in the social security system, the criminal justice system, the democratic system and so on. As a citizen goes about their daily business they will amass large volumes of public data – from planning applications they make to complaints about a public service to notes on their health created by their GP and so on. We should therefore think of a citizen identifier as being a means of linking an individual to their data accurately.

When we think in these terms, the nature and purpose of citizenship and the data that citizenship inevitably creates raise important questions; not least the ownership and use of personal data. In May 2018 the new General Data Protection Regulation (GDPR) takes effect in the United Kingdom. After this date all Scottish citizens will 'own' their personal data. This means that unless the data holder (the people whose computer the personal details are sitting on) have a legitimate reason for holding the data a citizen will have to give their consent for the use of that data. This regulation will also give Scottish citizens rights such as the 'right to be forgotten', the right to know what personal data an organisation holds and the right to be informed about how that data is used. Assuming citizens of an independent Scotland will have at least the equivalent data protection after independence then the GDPR will be the starting point for data protection rights in the newly independent Scotland.

The NHS has held medical records since inception but there is a difference between a paper record that is held under lock and key and an electronic medical record. It is this difference that is at the heart of data protection. Is it right that one part of the health service could share health data on you with another part of the health service? Should sharing only be done with the patient's permission? Should the health service be allowed to share your personal data with other parts of government (for example, the social security system in the event where an individual is applying for disability benefit)? Should the health service be able to share anonymous data with non-public sector actors such as a university carrying out extended trials on aspects of health policy?

This sharing may benefit you in the long run, but it might not. Should you have to give your permission before this sharing can take place? Should the health service be allowed to share your data on an aggregated basis with private companies on a for-profit basis, perhaps to help in the production of a new drug. Or should it be allowed to share your data with a private company on a disaggregated basis, perhaps to enable that company to target its marketing and advertising at you in a customised manner. Should you have to give your permission for these? Or the second only?

The question of how our personal data is used and how large banks of aggregated data are shared and manipulated by government, its agencies and third parties, is one of the biggest and most complicated questions of our era. In setting up a new system of citizen identifier, Scotland would have an opportunity to try and find the 'right' answers to some of these questions. Very broadly, citizens absolutely must be protected from the abuse of their data and must have an absolute right to privacy. Threats to that privacy inevitably spin out from the large volume of data that are held about us, but at the same time, the ability to create the kind of society we want to live in now – seamless, easy, fast efficient, connected, able to solve complex problems quickly – requires that data is used effectively and efficiently, and that means data-sharing.

The National Commission should be tasked to undertake a wide-ranging consultation on how people want to relate to their data – and on how officials and others want to use that data. So given a starting point that the ultimate ownership of data belongs to the individual we need to establish a new data contract between the citizens and state to decide how much of an individual's data must be shared with the state on a compulsory basis. For example, for the purposes of gathering tax you would be legally required to make available current data on your address, your employer, your bank account and so on. For the fair operation of the legal justice system it would be compulsory that data on crimes you have committed be accessible at least until convictions have expired. So, while the data would be considered your data, the data contract would require that to be a citizen or resident in the country, some of that data must be shared on a non-negotiable basis.

Then there is another range of data which might be shared on a conditional basis – if you wish to access certain public services, you should be required to share aspects of your data to enable that to happen. For example, if you make a planning application, your application would remain your data, but it would be required that you allow that data to form part of the public record. More comprehensively, it should not be compulsory that you receive medical treatment from the NHS. However, if you choose to receive that treatment it is reasonable that the NHS would expect to be able to carry out that treatment safely and in an informed way by having access to all your relevant medical data. So, if you wish NHS care, it would be conditional on you agreeing to share all your health data with the NHS.

However, there may very well be aspects of your data that you do not wish shared with third parties, and that should be your right. If you do not wish for the social security service to have access to your medical records, you should have that right. If you wish to help support large scale medical research projects by allowing your data to be aggregated with that of many other people, then it should be easy to do – but it should not be compulsory. So here there might be options for opt-out opportunities. But if you choose never to allow your data to be shared with a commercial company, that should be a right that you have. The state often has a monopoly of 'digital power' over the citizen, but as well as being against the spirit of an age where citizens expect more control and participation, it is also inefficient and can lead to increases in costs for delivering public services. A person-centred approach to data is the foundation of a system of person-centred services.

To achieve this, citizens could be given access to an online portal to their 'data store', effectively a large database of all the data which has been collected which relates to their personal citizen identifier. From that portal a citizen could then set permissions or respond to specific requests for data-sharing. In the modern world one of the compulsory forms of sharing might be that your citizen ID is permanently tied to a communication means of your choice (such as an email address or a mobile phone number) which would become the main means of the public sector, the state, criminal justice agencies and others contacting you. This would enable you to take as great or as little a degree in managing your data as you wish.

This concept will be considered further in the next chapter, but it would potentially create a radical new structure for how the state can get access to crucial data about citizens, but in a way that gives citizens control, enabling them to feel much more trust about how their data is being used. It could create a robust system which is fit for purpose for the major unknown developments in technology which are to come and could be a very positive statement about what a new Scottish nation sees as the balance of power between its state and its citizens.

Having put all of these citizenship systems in place, Scotland would have become a modern nation-state bound by constitutional rights, empowered citizens and a flexible system ensuring that citizens have access both to all the processes they expect in the modern world but with a degree of protection and control that can give them confidence. This of course relies on reassurances – that data will be secure, that it won't be lost, that it will be properly managed and so on. So let us turn to these issues now.

Getting the digital state right

The issue of IT and computing systems in the public sector is a thorny one. There is no real inherent reason why IT systems should be seen as such a fraught and disaster-prone aspect of public policy, but they are. In the UK in particular there is an alarming track record of massive and costly IT projects going wrong. Some have been abandoned completely after many millions of pounds of money have been put into them. Others have made it to completion only to discover that they don't work or have major flaws or security lapses. More subtly, some end up working, but doing so in a way that requires so much relearning from staff or which becomes so much more complicated to use that they actually reduce productivity. Or, more subtly again, some are implemented, work and are an improvement on what they replace – but only for a while. It then becomes clear that they have been badly designed in terms of future compatibility and adaptability and then they rapidly become not fit for purpose.

At a system level, different parts of the public sector all procure their own IT systems and they often do not do this to a single agreed standard. It is therefore perfectly possible that two neighbouring local authorities will be using software systems designed to do the same thing but which cannot interact with each other. And generally, managers tend to underestimate the amount of continuous investment that needs to be made to maintain and update software solutions. 'It's kind of working now – let's just get by until it breaks down' is one of the causes of repeated system replacements which bring upheaval and disruption.

It is important to be absolutely clear that the process of achieving Scottish independence will involve substantial investment in IT systems. Even at the most basic level, current systems are all designed to make payments in Pound Sterling, often based around for example the BACS system. These will no longer be useable when Scotland implements its own currency, and while the fix for this will often be straightforward, there is a lot of it to do. And quite obviously there will be a range of new functions which will become the responsibility of the Scottish public sector and these will require new or extended IT systems to deliver them. Perhaps more complicated, there is also overlap between systems used in Scotland and those which are systems of the UK Government. These have been made to operate together but it may not immediately be obvious which parts of these integrated systems will no longer be useable once responsibilities are returned to Scotland.

There is great nervousness and apprehension among public servants whenever the subject of new IT systems is raised, particularly because of the woeful track record of public sector procurement. But this is simply an attitude that the public sector cannot afford to internalise. The modern world operates on the basis of IT systems. If the public realm instinctively pulls back from investing in and improving those systems (for fear of failure), all of Scotland suffers. And if the process of filling in the gaps in the existing Scottish IT infrastructure such that it is properly ready to become an independent state is bodged or avoided or put to the back of the queue, the transition will be a painful one. It is therefore essential that the National Commission is set up and resourced in a way that it is able to manage these projects confidently, effectively and without major failure.

This is not the place to undertake a detailed analysis of the failures in IT procurement and maintenance, but it is worth outlining a few considerations – not least to reassure people that failure is not an inevitability. The first problem is that far too often the public sector is procuring things it does not properly understand. There is a now widely understood mismatch between the knowledge and skills of those who do the commissioning and those who do the tendering. The vast majority of tenders are won by a small number of large multinational IT service companies.

The interest of these companies is to make maximum profit. An under-experienced procurer is ideal for profit maximisation. Unless a job is very clearly specified with a proper understanding of its real function and means of operation, with defined limits to its role and underpinning strategies for flexibility and integration with others, an IT service company will quite happily design all this for you. However, this design is not really 'for you' but for them. The resulting systems tend to be 'closed' – proprietary solutions which have protected IP and are therefore very closely tailored to one form of operation. This means that these systems are very hard to adapt in future because only the company which originally designed them is able to adapt them (they own all the detailed knowledge about the system which they will consider to be 'commercially confidential' and so will refuse the right for both procuring agency or third parties to properly understand 'what's going on under the bonnet'. The procuring agency then becomes 'trapped', utterly reliant on whatever service agreement it is left with once the initial project work is complete.

This creates the concept of 'moulds like putty, sets like concrete' problem where rather than a flexible system designed to adapt and develop over time, what people get instead is a very rigid implementation which is designed only to meet exact needs at a single time and not to adapt. There is of course also a very strong incentive to encourage ‘feature creep’ – a good IT manager would constantly ask whether each new suggested feature is actually, really needed and whether it adds to the system, on the principle that simpler and clearer systems work better. A service company has the incentive to simply add on any whim to the tender, as each additional feature substantially increases income. And, as we have seen, there is virtually no sanction for failure to deliver a working system – while some bonuses included in a contract may be withheld, all the core costs will already have been paid and there is little evidence that failure to deliver a project in the past has ever prevented the same supplier getting a new contract in the future – underpowered procurement managers are simply trapped in a system which ‘expects’ a small number of private companies to monopolise IT provision and seem to have absorbed this state of affairs as normality. But it isn’t; other countries do not have anything like Britain’s miserable track record on implementing IT systems.

The solution to this is straightforward, and there is a version of it that every one of us uses with utter confidence and minimal difficulties every day of the year. It’s called the internet, and it is based on two essential concepts. The first is that it is open source; anyone is free to look ‘under the bonnet’ and see exactly how the programming language works and what it is doing. It is difficult to express how important this is; the internet as we understand it could never, ever have been created by any single entity developing every nook and cranny of the web, every application, every ‘plugin’ which gives new features. It is because the internet is based on two incredibly simple underlying protocols – Hypertext Markup Language (HTML) and Hypertext Transfer Protocol (HTTP). The latter defines how the information is ‘moved’ around and how web browsers should behave, and the former defines how that information is shown on your computer screen. They are incredibly simple and easily understood – and completely in the public domain.

Of course, these two simple protocols do not enable the modern web to do what it does – there are a host of other protocols which deal with server management (PHP) or database management (SQL) and there are programming languages which create applications like Java or C. But these are built on top of that very simple system of letting computers talk to each other so that the user at both ends sees the same thing. And, absolutely crucially, every one of these programming languages and protocols are open source. They are free to be used by anyone, and any two people anywhere who are familiar with them could look inside any application and understand how it works and what it is doing.

(While there is no space to elaborate on the practices of open source development here, it is worth noting that it's actually not so much the general programming language which really drives open source but that over time programmers have created vast libraries of open source modules – not just the language but little pieces of code that do specific things and so are used over and over again in different applications. It is the range of open source modules which is the real strength of open source, not just the fact that the programming language itself is open source. Almost no software is now written which is not largely composed of 'off the shelf' modules which do most of the routine tasks and it is being able to identify each of these modules and their tasks that let people understand what is happening in open source-developed applications.)

An open source system is like building a strong foundation on which much more complex things can be built – but making the foundation consistent and free for anyone to use. One of the most inspiring things about the way the technology of the internet developed is to understand that no government, no single body, company or organisation, could have created it alone. Without collaboration and open access to the underlying codes and protocols, it would not have become what it is. What this means is that any developer in any part of the world can create an application which can then be used by any user in any other part of the world – and it will work. In comparison, two neighbouring local authorities in Scotland might well be unable to share any part of their data at all. Taking an open source approach which is built on a shared architecture means that any two systems built on the same architecture can talk effectively to each other, can be interconnected and integrated. It should go without saying that interconnected, integrated IT systems are precisely what the public sector should be using – and yet this is something like the opposite of current practice.

And there are other benefits of an open source approach. When a private, proprietary piece of software is launched (a new mobile phone operating system, a new computer game, a new workplace utility) it will have had many hours put in by a small team trying to find flaws and errors. Inevitably, they will miss many of them – and this is what leads to the almost constant 'bug fixes' that we get with newly released software. However, when developments are made in open source software, the team of people who can look through it and find mistakes and errors is unlimited. It is not a closed system to which only a few programmers (working for one corporation) have access but rather an open system which many people use and so which many people have a strong shared interest in getting it right. It is now widely recognised that open source platforms are much more stable and secure than proprietary alternatives.

And – by definition – they all work from the same set of shared code, so even if two systems are developed on an open source platform utterly separately and independently of each other, the chances are that it will not be difficult to make those systems work together. If there are any remaining doubts about the viability of using open source solutions, it is sobering to realise just how many of them underpin the US defence system, chosen precisely because of their reliability, resilience and interoperability.

So why don't we use this approach in Britain? Because it would break the monopoly of the big IT solutions companies. An open source solution to a public sector IT problem would produce an outcome where at a later date any IT contractor of any sort (however small) could come in and look at an IT system and fairly quickly come to understand how it was working and therefore begin to look for errors or mistakes. In particular, many smaller Scottish IT companies cannot get public sector contracts because the IT system in place is proprietary and so contractually only the original service company is allowed to interfere with the code, locking other developers out. This is a systemic relationship which more than any other creates the UK's public sector IT failures.

There is a final concept which it is worth briefly being aware of in this context, which is 'open ledger' or 'distributed ledger'. While this has many forms and models (crypto currencies use this technology) it very loosely means that rather than data being wholly 'owned' by one single piece of software, many different pieces of software can use the same data, and when they alter or change that data, the data then changes for any other piece of software which is using that data. The software then becomes more like a 'front end' which enables you to draw data in and use it or manipulate it – and then 'release it' back into a wider and interconnected IT system.

To explain this more fully it is worth using an example (and it should be noted that from May 2018 there will be legal requirements to move from the current approach towards the one described here). At the moment if you live in local authority X, your data will exist in a number of databases. For example, you'll be in the Council Tax database under your current address. But that same address will be used in the refuse collection department to make sure your bins are being emptied. And at the same time your health data will all be held in a health authority which will use the same address as the local authority but in a completely different system.

There is no guarantee that if you change your address within the local authority (move to a new house elsewhere in the same town) and you update your Council Tax details that this will also update your bin collection data – and it almost certainly won't update the health authority's records of you. Now, if you then were to move elsewhere in the country, to a different local authority and health board, you will have an even greater amount of bureaucracy. You will have to notify your existing local authority that you are moving – and this may have to be done more than once depending on how well integrated the local authorities systems are. You will also need to unregister from your existing health authority. Then you will need to reregister with your new local authority (potentially a number of separate times) and separately with your new health board. When you register with the new health board it will have to put in a request to your previous health board to get all your files transferred. It is quite likely that there will be no way for all the data you have accumulated at your old local authority (for example, an exemplary track record of paying your Council Tax) to follow you to your new one. Such are the problems of operating in a landscape of unintegrated proprietary IT systems.

However, using a distributed ledger model, you might have a portal (as described in the last chapter) where you have access to all your data. Simply by logging on to that portal and changing your postcode, all of your data would follow you completely and instantaneously. Your new health board would know immediately it had a new patient on its lists and would immediately have all of your records. Every part of the local authority which had any interest in the postcode you now occupy (for tax or refuse collection or any other purpose) would have all of your information immediately available. The process would be seamless and painless – and secure, because only you or any other organisation you authorise to do so is able to change your data.

It is of course important to note that distributed ledger is a recent development and the technology and its application is still developing. This means that it may not be immediately possible to use a full distributed ledger approach for all uses, and it may not be wise to in some cases until more troubleshooting has been done. But it seems very likely that this is the direction in which data management will travel in the near future and it would therefore be an incredibly short-sighted move not to plan this into how new systems are designed, even if only for adaptation in the future. IT systems are never 'finished' – another flaw of how they are seen in the public sector. You put software in place, you evaluate it and then you release updates, continuously – implement, evaluate, evolve.

All of this would also create a much, much more robust national system. The irony (of course) is that it is the track record of doing it wrong which makes people so hesitant to do it right. But since Scottish independence would require major IT changes whether we like it or not, it would be the perfect time to get this right. The National Commission should appoint an in-house team which is not captured by corporate suppliers to define the architecture of a new Scottish IT landscape (and there is a strong argument that this should then form the basis of a permanent public sector 'software company' which oversaw and developed IT across the public sector).

It should set out open source protocols to underpin and harmonise similar tasks being carried out in different places. It should create a data architecture which enables an effective distributed ledger system as the default for how Scottish IT works. It should create an absolutely first-rate IT procurement team which always knows at least as much as anyone it is procuring from (and there is a strong case to say that it should simply recruit a large number of Scotland's many IT experts and graduates and just do the work in-house in a consistent way). It should find ways to implement changes such that the front ends of systems remain familiar to users (what a council worker sees on screen does not need to change, only the architecture of the data on which it is based). And it should train the public sector to understand these issues better and to recognise the need for proper, ongoing investment now to avoid major problems later on. If it can do this, then it is in a good place to deliver the major IT change Scotland would need.

So what are these, and how big is the task for each? This is naturally a variable question. For example, had Scotland been required to set up a full tax collection system in 2011 it would have had to start from absolute scratch. There was no IT infrastructure to capture the data on Scottish taxpayers or even to know where they were, who they worked for or any of the other information you'd routinely need to run a tax system. However, since the two Acts (2012 and 2016) that devolved greater powers to Scotland have created new powers over tax, a lot of this infrastructure has now been or is now being built.

The shift from dealing with no aspects of income tax to dealing with some aspects is much, much bigger than moving from some aspects to all aspects. However, at the moment Scotland has no role in corporate taxation so all the systems required for that would have to be developed, and the position with VAT is currently an uncomfortable transition from no power to some power but not clearly defined. However, it is important to make clear that these are processes which are already well underway and the work to create a proper IT system to manage taxation is well on the way. On the other hand, for obvious reasons, there has been no work at all on IT systems for borders or customs or immigration so these would need to be begun largely from scratch.

Since each case is so different it is not worth going through them all in great details – the important thing is that the National Commission is set up such that it is capable of managing this process successfully. But to give a sense of scale, the following is a quick run-through the systems which will have to be developed and a rough sense of volume of work and cost.

There will need to be a Scottish Treasury and it will need all the associated financial systems. However, the core of this now already exists in Scotland and the basic ability to do all the necessary things (revenue borrowing, capital borrowing, managing a reserve and so on) are already being developed for implementation in 2021. To adapt these further to manage the same responsibilities in a wider context might cost about £50 million. A tax collection agency (as already noted) is much further forward than it was even a few years ago and will be in a position to gather tax from Scottish individuals and companies by 2020. While systems will not be designed to gather certain taxes, the data needed to gather those taxes at a later date will be there. For example, the current system won't be able to gather corporation tax, but it will have a database of all enterprises operating in Scotland because of the partial VAT powers, and other taxes like National Insurance or tax on investment income won't be in place but all the data on individuals necessary subsequently to gather those taxes will be in place. For that reason the cost of adapting these systems to operate as a full tax collection agency is substantially lower than it otherwise would be – perhaps £200 million.

Social security is another area where partial devolution has resulted in nascent systems which will be much easier to convert into a full social security system under independence. So by 2021 Scotland will have a system capable of paying all devolved benefits (but notably not pensions). The key is that this IT system should be set up in a way capable of managing a number of different approaches to social security policy, from an inexpensive-to-run Citizen's Basic Income model to the complex and time-consuming system of assessments and appeals we currently have. Getting to that point might cost about £150 million.

The IT costs of implementing a currency are fairly straightforward. As discussed above. it might be that some financial support would be given to smaller banks or financial institutions which don't have existing foreign exchange facilities to convert from Sterling to Pound Scots, and this might come to about £40 million. However, larger banks all already have this facility so the cost to them would be negligible. The kinds of IT needed to operate a new currency have been considered above and most would be operated by the Central Bank. Many of these will be based on international standards and so will not need to be developed from 'first principles'. The cost might be between £100 and £150 million, but as always it should be pointed out that central banks are profit-making organisations and it should take less than two years for the bank to be able to meet these costs in full from revenue. Also in the economy area, Scotland will need a Department of Trade and Industry. However, while the role and powers of this body will be new, the IT infrastructure it will require is already there and so the development costs will be negligible – it is not a particularly IT-intensive department.

This is not true of defence, of course. This will be considered in more detail below, but assuming that Scotland wishes to put in place IT infrastructure which is capable of making a very effective defence of our borders in the highly unlikely event of attack, and of being able to patrol borders for illegal activity such as smuggling, a substantial IT system would need to be put in place. However, that cost is included in the very substantial cost of setting up a Scottish Defence Force. What should be seen as crucial to defence but potentially separate from this spending is a really effective cyber security unit. This would carry out a wide range of activities to protect

Scotland, its public sector and its economy from malicious attack from individuals or states. For example, there would almost certainly want to be investment in specialist proprietary 'chips' which would be put in national infrastructure to prevent access from foreign powers. There would also be a substantial monitoring capacity that would be implemented, probably as part of the Police service. It would be wise to dedicate at least £200 million to this.

Another area that will require major investment is a Borders and Customs Agency and the Passport Agency discussed above. And IT system which would be capable of underpinning this would require a lot of fast connectivity, recording ship, aircraft and container manifests and enabling Customs officers to search these and check for discrepancies against VAT declared and so on. This would require a lot of specialist equipment, from automatic number-plate reading to the many mobile devices that customs officials would require to monitor and investigate potential breaches. There would also need to be new IT systems which would enable Scotland to manage the new Passport Agency and to enable it to share information with services such as customs and immigration. This entire package of IT might come to something like £300 million to complete – but it should be noted that this is absolutely dwarfed by the size of the income that would be derived from fixing the UK's horrendously leaky customs system (estimated to cost the UK about £40 billion a year through lax collection of customs and excise duties).

A Foreign Office and Consular network would require secure, diplomatic communication links. This is straightforward but comparatively expensive, costing perhaps £100 million in the first instance. The requirements to set up an independent energy system and energy regulator are initially straightforward and, given the experience of Ireland doing some of this, could both be achieved for also around £100 million. However, it is important to note that this would simply be what is required to take over control of the energy system as it stands and take Scotland to an effectively status quo position on independence. This is nothing like sufficient for the future. Scotland will need to invest very substantially to create a modern energy system based around localised and smart grids with much more diversified generation capacity and a lot of energy storage. This means serious investment in the future, but this is not necessary to get Scotland to independence.

There are then a number of other additional functions which will be needed but where the IT costs are either negligible or impossible to disaggregate from the overall cost of the project. There should be few if any costs in setting up a National Statistics Agency, a media regulator, a new national broadcaster (other than embedded costs) or to implement any changes to the criminal justice system such as the introduction of a Supreme Court.

The total cost estimated of all these developments when summed up is around about one and a quarter billion pounds. This is not actually a particularly large sum in comparison to what is routinely spent on IT across the public sector and is a real opportunity to begin to get things right with Scotland's public computer systems. It has been worth dwelling at greater length than might initially have seemed necessary in this chapter precisely because of the scale of the groan that goes up whenever the need to address IT issues is raised. It aims to show that far from a resigned belief that it must somehow 'inevitably' all go wrong and cost more than planned, it is perfectly possible to do it well, efficiently, robustly and on time and on budget with real benefits for the wider public. But to do this the National Commission must learn the lessons of the UK's track record of public sector IT failures – and avoid them at all costs. If we do, we can have a sound and secure IT underpinning for an independent Scotland.

Scotland's democratic institutions

Scotland is sometimes currently treated like a region (for example in UK economic statistics). But you need only look at others regions of the UK to see the difference; Scotland has a very well established set of democratic institutions already in place. Enhancing these to make them fit for purpose for an independent nation state is a surprisingly straightforward process in comparison to many of the other tasks involved in making Scotland independent.

First of all we have a Parliament in place which has most of the capacities of a full national parliament. The main issue is of scale; it would need to do more of what it already does. It would need to take over responsibilities for debating foreign affairs, macroeconomic policy, monetary policy, social security and so on. This means it will need more parliamentary committees, more parliamentary staff and – importantly – it almost certainly needs more elected members. MSPs are already very busy handling the workload that goes through Holyrood and to substantially increase that workload without increasing the number of politicians would almost certainly lead to poor scrutiny of legislation. This would be particularly damaging in the early days of a new nation where confidence in the ability of the new parliament (and government) to take over new responsibilities and discharge them well must be built. For anyone who thinks that it is desirable to have fewer politicians, it is important to understand that this does not weaken the strength of government politicians but strengthen them – and it makes even more powerful lobby groups and others with direct access to the civil service, because it means the civil service must run more and more policy with less and less scrutiny.

There is obviously no absolute ratio of citizens-to-politicians which is 'right'. If we look at Europe just now the range runs from about 195 MPs per million citizens (in Iceland) to four per million in Russia. The Nordic countries are all in the mid-30s per million, larger European nations range from eight per million in Germany to 23 per million in Britain. However, it is of course important to note that countries like Germany have very powerful federal governments which cover much of the policy work which would otherwise be carried out in a national parliament in a country like the UK, so comparisons are never direct. On the whole, though, the range we see for nations which are smaller in size but not extremely small (the kind of three million to 20 million range) are mostly clustered in or close to a range of from about the high-teens (Belgium at 19 per million) up to about 50 per million (the number in Latvia). This is to be expected because of 'economies of scale' (the volume of work does not double each time the population doubles, but nor does it halve each time the population halves, so smaller countries will almost always require larger ratios).

Scotland at the moment sits at about 24 MSPs per million Scottish citizens, just marginally more than the UK's 23 and about ten-per-million short of the Nordic norm (which is not even particularly high by comparison with similar-sized countries). To give an idea of how this might change after independence, an extra 50 MSPs would bring the Scottish Parliament up to 179 members, which would be just a little short of 34 national elected politicians per million.

There are, of course, a number of problems adding this many politicians would bring, and by far the most intractable is simply the physical limitations of the existing Holyrood Parliament. It is almost certainly the case that the building as it stands would not accommodate an extra 50 politicians and their staff nor easily absorb an increase in committee meetings of perhaps 50 per cent or more. And, of course, the experience of building the Holyrood Parliament (never mind the experiences of tampering with it once it was built) still generate a mild form of trauma in many observers. A lot of people in and around professional administrative circles do not want to contemplate the implications of this.

However, it is absolutely essential that we put the horse before the cart here; the essential democratic necessity of enabling good government through sufficient scrutiny must be at the heart of setting up the democratic institutions of the new Scotland, not bureaucratic fears about the previously botched process of getting one building up and watertight. We will need more parliamentarians and that must be the first consideration. However, it would of course not be wise to fail to learn from past experience. Most of the failures in building the Scottish Parliament are squarely down to the undue haste to get it built (for largely political reasons) and the resultant failure to properly specify the building or put in place proper cost and management procedures at the point at which tendering was evaluated. It would be insane to repeat that error.

There is more than enough to be done to set up a new Scottish state without having to manage a complex refitting and expansion project in the Scottish Parliament. The National Commission should therefore be tasked with consulting on the scale of the expansion of Scotland's parliamentarians and producing interim and work-around proposals for how they can be effectively accommodated on a temporary basis.

There is another good reason for the temporary fix – it is, in the end, fundamentally not for a small group of professionals to make these decisions alone. The number of parliamentarians in Scotland is a constitutional matter. Since the constitution is to be created in collaboration with all the people of Scotland, decisions on issues such as the scale of the Parliament should also be part of that process. And there are other issues which may impact here as well. For example, there is absolutely no reason why a nation state must have a 'bi-cameral legislature'. This simply means that the state has two parliaments, one which can act as a check-and-balance on the other. In Britain there is the House of Commons and the House of Lords. In the US there is Congress and the Senate. But in fact, half of the sovereign states in the world are unicameral (having only one parliament) – including all the Nordic and Baltic nations, New Zealand, Portugal, China, Ukraine and Israel. In these countries the party political or committee system acts as the 'check and balance'.

There is no reason for Scotland to feel it must create a 'second chamber' in the event of independence. But equally, there is no reason we shouldn't if we want to. And there may be a number of reasons why we might wish to consider it. To give an example, Common Weal has published a paper arguing that the democratic process in Scotland lacks a 'citizen's voice' and that creating a second 'Citizen's Chamber' with members selected at random from among the population to represent that population as a whole would act as a counterbalance to the 'insider political culture' which surrounds all parliaments and governments. Others believe that there is 'wisdom' among the 'great and the good' which is encapsulated in the House of Lords and that losing this means the legislative system loses much of its collective 'wisdom'. Others again may well argue that devolving more powers to the regional and local level is the way to achieve this.

But these are all constitutional arguments and there is no reason at all why they need to be resolved at any great speed. It is possible that the three-year process of collectively building and adopting a constitution might resolve some of these questions – but it might equally throw up as many new questions as it is able to resolve. There could be many outcomes. For example, it might be felt that expanding the Scottish Parliament on a 'make do and mend' basis is sufficient for now but that a public review three years after independence would examine the experience of how well it has worked in practice.

The National Commission should support and facilitate this process and it should make all the provisions necessary to ensure that an expanded parliament is ready to operate from independence day. But there is a strong case for keeping this a minimalist process in the first instance to allow

Scotland's democracy to evolve after independence rather than constraining it in a rapid three-year process.

There are other aspects of Scotland's democratic institutions which will require reform. Primary among those is the civil service. Scotland's civil service remains a slightly strange hybrid body. Ultimately it remains a reserved function and the final lines of management in the UK civil service all point to Whitehall in London. However, since Scottish devolution more and more of the day-to-day lines of responsibility have moved into Scotland. The Scottish Government now has a very substantial say in the recruitment of senior civil servants and on almost all devolved policy issues; the 'chain of command' ends in Scotland. Even more importantly, it is now the case that most of the civil service staff working in Scotland have their HR and other employment functions managed in Scotland – the issuing of contracts of employment and so on is mainly handled here (though this is not the case for senior staff).

During the three-year transition process it has already been proposed that the civil service should operate 'as is', splitting its work between devolved functions (almost all being carried out in Scotland) and reserved functions (the vast majority of which are carried out outside Scotland). While this might throw up some potential conflicts of interest (where one part of the civil service knows that decisions now might influence the post-separation environment and so have an incentive to do not what is in the best interests of all but in the best interests of one side or another), two means of resolving these have been proposed above (a transition council overseeing any disputes and the setting of a pre-referendum date which would be accepted as the 'status quo ante' such that changes made after that date are not the basis from which negotiations take place). The bigger solution, however, is to set up the National Commission and separate the 'state-building' work from the 'continuity government' work.

However, the civil service will need to prepare for an eventual 'split'. Any remaining cross-border chains of command and lines of reporting must be broken and reestablished as ending in Scotland (and visa versa for the rUK). For existing civil servants working on devolved issues in Scotland this ought to be a fairly frictionless process – they will be working to virtually the same contracts with exactly the same terms and conditions and in the majority of cases those will be issued by the same HR department as at present. For civil servants living and working in Scotland on reserved issues, the position is different. It is almost certainly the case that the rUK will wish to 'repatriate' those functions to the rUK. Employment legislation means that any of those employees who wish to emigrate to rUK and continue in the exact same job would have a legal right to do so. But presumably most won't (when HMRC moved jobs from Dundee to Edinburgh, not a single member of staff applied for a transfer...).

But it is important to understand that the same process will be happening in the other direction – and that 'inward flow' of civil service jobs will be substantially bigger than the 'outward flow'. In fact, it is likely that as many as 20,000 additional civil service jobs will be required in Scotland. These are all jobs that Scotland is currently already paying for because they are providing essential services for Scotland – but those services are being delivered from elsewhere in the UK and so that's where the jobs are. Therefore any Scottish-based civil servant working on a reserved issue who does not want to relocate to England or Wales should be guaranteed a replacement job, on the same or better terms and conditions as their current employment and, if they wish, in a policy or service area as close as possible to their existing role. This will involve some HR and contractual changes, but as these will mainly be like-for-like the process should not be excessively onerous.

It is then important to understand that the employment law conditions (known as TUPE) apply in the other direction (Scotland should of course be continuing and strengthening the UK's currently insufficient employment protection laws). This means that any rUK-based civil servant whose job is moving to Scotland would have the right to move with the job. This could either be ex-pat Scots wishing to return or potentially English, Welsh or Northern Irish residents who are simply attracted to Scotland as an independent country and wish to try moving here. In either case, this inflow of skilled people in good and stable jobs is very much to be celebrated. Every one of them will live and work in Scotland, pay their taxes here, raise their families here. They will be a great asset to the new Scottish nation.

The remaining new civil service jobs (of which there will be many thousands) are simply new jobs in Scotland and would need to be recruited through the normal processes. As these involve no transfer of contracts or change of terms and conditions or location of work, these are simply routine recruitment processes, complicated only by scale. Having to fill thousands of skilled jobs which impose no additional cost on the public purse is a pleasant task to have.

These new posts would be to fill a number of new services and government departments – from a replacement for the Department of Work and Pensions to a new Scottish Treasury. The rough list of the new departments or agencies which would need to be created was covered in the preceding chapter on IT systems. It includes new departments to cover new policy responsibilities (social security, employment law, treasury, macroeconomic policy, foreign affairs, defence), expanded departments to absorb functions which are currently split between Holyrood and Westminster (such as transport, policing and energy) and agencies or regulatory bodies which need to be created or expanded (a National Statistics Agency, a media regulator, a data protection regulator). Some of these have been covered already in this book, others shall be considered under specific policy headings such as energy and national security.

However, there is an important point to make here; there is a very big difference between setting up these institutions and running them. There are many, many foreign policy stances which Scotland might wish to choose, dozens of approaches to economic policy, giant changes possible in social security provision. But these are all decisions for a democratic government and parliament in a properly-functioning Scottish nation state. The process of setting up the capacity later to be able to take these decisions is much more straightforward and involves basically three processes (other than in a small number of cases to be considered separately which require major capital or infrastructure – perhaps most notably defence). The first process is to create a governance structure for the new functions, which means creating a Scottish Civil Service to manage and a Scottish Parliament capable of scrutinising (both covered in this chapter). The second is to ensure that the basic operating infrastructure is in place, which in the modern world mainly means getting the IT systems right and in place (covered in the previous chapter). Finally, it involves recruiting good and talented people to work in these new roles (which was discussed in the chapter on talent-hunting above).

And that's all that is required to get these basic functions in place. The bulk of the responsibility lies between the National Commission (which would oversee the IT developments and support high-level personnel recruitment) and the emerging Scottish civil service (which would project manage the establishment of the new departments and undertake the bulk of recruitment).

There is one remaining area of what would be considered the democratic institutions of a nation state to consider and that is the legal system. Scotland's most senior court and main domestic court of appeal is the Court of Session. The extent to which this was superseded by the UK's Supreme Court remains a contentious issue, and whether Scotland would require to set up any form of 'supreme court' or whether the Court of Session can take that role is not an issue that must be resolved for independence day – particularly given that both the UK's and Scotland's exact relationship with the European Union's justice system will not be known. These are therefore decisions that can be taken after independence.

In the last independence referendum much political play was made of all the UK civil service jobs that would go, or about how complicated it would be to set up all these new departments. In fact, in the list of tasks that Scotland will have to undertake to become independent, setting up new government is not a difficult one at all.

Scotland's national security

Scotland's national security is something that must be both taken seriously and considered proportionately. Scotland will undoubtedly face threats to its national security as an independent country and it must be well prepared to meet and deal with those threats. But at the same time, the nature of those threats is changing. For an independent Scotland, they would not be exactly the same threats as the UK (which has an interventionist foreign policy, has engaged militarily in a wide range of countries and has defined the interests of corporations as being synonymous with national security). And of course Scotland would not require to be the location for all of the UK's nuclear fire-power and, therefore, one of the principal European military targets. An independent Scotland must balance the need to be seen to be capable militarily to defend itself while also recognising that the much more likely threats will come from other sources – and to be ready for those as well.

It is therefore helpful to think about the threats that Scotland would face. They fall into five categories; organised crime, cybercrime, terrorism, espionage and military threats. Of these, the least likely to pose a threat in the foreseeable future is military attacks on Scotland's territory from another state (traditional war). The much more pressing threats are from non-state actors – terrorism, organised crime and cybercrime – and these are increasingly transnational in nature. They pose a persistent threat of social and economic harm to Scottish citizens and institutions and must be taken seriously. The issue of espionage by another state actor has become a strong focus among certain western governments, though in form these appear to be much more like cybercrime than more traditional in-country activities. We must prepare for all of these threats.

However, a Scottish Defence and Security strategy must also consider how geopolitical shifts and other trends can cause the threat environment to change, sometimes dramatically and with little warning. It is a common human bias to assume that what we have now will be what we have in future. A multitude of present-day trends including resource depletion, climate change and the resurgence of the far-right could culminate in a future threat environment markedly different from the relatively benign circumstances Scotland finds itself in just now. Long-term and contingency planning must therefore inform the capability requirements emerging from a defence and security strategy alongside consideration of the current threat environment.

What is being explored here is not all the issues that relate to a long-term security policy but rather what preparations are necessary to build the infrastructure capable of enacting one over the three-year transition period to independence. However it is difficult to consider this without thinking about what kind of security strategy that initial infrastructure will have to deliver. The following are five considerations. National security must be seen as a broad-based issue, to include issues such as human security, environmental security and economic security. If one of these areas creates insecurity, it affects the others.

While there are differences between systemic threats (such as Scotland's exposure to economic or environmental risks) and malicious threats there are often connections between the two which require a 'joined-up' response across multiple policy areas. For example, the government of an independent Scotland would need to achieve policy coherence through its environmental, education and foreign policies to help tackle the root causes of instability and violence while retaining the necessary law enforcement and military capabilities to respond to threats from malicious actors.

As a small nation, Scottish national security would depend on forming strong relationships with like-minded countries which share similar strategic interests and face common threats to their security. Scotland's geographic position, surrounded by benign democratic countries, is arguably its greatest strategic asset, providing it with strategic distance from more unstable regions of the world and more aggressive foreign powers. Good relations with regional neighbours would therefore be a vital cornerstone of Scottish foreign policy, as would some form of engagement with existing international security structures - given the transnational nature of most modern threats and the role of intelligence-sharing in countering them it would be detrimental to Scottish national security to avoid such engagement.

This means 'pulling our weight' in a number of ways including our contribution to foreign aid, diplomacy, trade, military and law enforcement efforts. We would be expected to have particularly close defence and security ties with our closest neighbours – the UK (but in a non-nuclear context), Republic of Ireland, Norway and Denmark. So Scotland would want to integrate quickly, but this in itself has substantial consequences because different levels of integration would involve substantial restrictions on Scotland's ability to make its own policy choice. In particular the EU and NATO provide collaborative structures but come with strong policy implications. This means there will need to be a proper future democratic debate on these issues. As a first step Scotland should pursue associate membership in these organisations such as joining the NATO Partnership for Peace (PfP) program (like Ireland, Finland and Sweden) or the European Free Trade Association (like Norway and Switzerland), before considering full membership. This would allow for a more flexible foreign policy while allowing integration in specific areas of mutual interest.

We need to think about resilience – not only how to stop bad things happening but how to respond if they do. It is impossible to predict, identify and intercept every possible threat and focusing disproportionately on security can have very negative effects on society such as extensive curbs on civil liberties. Acknowledging that some threats will slip through the net, we also need to embed 'resilience' into the fabric of Scottish society to improve the ability to recover from incidents such as a natural disaster, cyber-attack or terrorist bombing. Resilience can also mean Scottish communities and institutions that are better at resisting the effects of events that can't be easily or effectively countered through law enforcement or military measures. This can include global economic shocks, attempts at coercion by a state or non-state actor and campaigns of misinformation and extremist propaganda.

But we also need a law enforcement focus. Given the criminal nature of the most common malicious threats to Scottish national security it would be reasonable to assume that law enforcement and intelligence agencies would take priority over the military in a defence and security strategy. That is not to say that the military would take on a lesser role in national security, simply that capability development and associated expenditure should acknowledge the importance of meeting immediate requirements, such as preventing serious organised crime and terrorism from finding a 'safe haven' in Scotland, before addressing threats that could potentially emerge over the longer term.

Finally, while Scotland currently faces no territorial threat from another state there are no guarantees that geopolitical shifts could not result in such a threat emerging in the long term. The threat landscape is fluid and a strategy to protect Scottish national security must therefore be flexible and capable of scaling up or down depending on the prevailing or predicted strategic circumstances. This requires embracing a strategy which maintains capabilities at different levels of readiness or in a state from which they can be achieved if required. For example, Scotland could retain small cores of military capability which would have utility in a low probability scenario such as a major conflict in the high north region. Given that such a scenario would likely be preceded by a period of heightened strategic tension, Scotland would be better prepared rapidly to build capabilities than it would be able to if starting from scratch.

The next immediate issue to think about is establishing a security and intelligence agency. Scotland should create a single integrated 'all-source' national intelligence agency responsible for collecting, analysing and utilising information in support of law enforcement, national security and foreign policy objectives. The Scottish Security and Intelligence Agency (SSIA) would be largely modelled on the Danish Politiets Efterretningstjeneste (PET), in that it would form a part of the national police service, but would be responsible for both domestic and foreign intelligence operations. The SSIA would be based at the Scottish Crime Campus in Gartcosh, with a satellite office in Edinburgh to advise policymakers and liaison offices in police divisions and Scottish embassies overseas. The SSIA would work closely with law enforcement agencies, the Scottish Defence Forces and the intelligence services of allied countries. In support of its objectives and in accordance with the law, the SSIA would be capable of collecting and utilising intelligence from a number of sources including: Open Source Intelligence (OSINT), Human Intelligence (HUMINT), Signals Intelligence (SIGINT), Measurement and Signature Intelligence (MASINT), Imagery Intelligence (IMINT) and Financial Intelligence (FININT).

While the vast majority of intelligence would be gathered from overt sources or government databases, the nature of the SSIA's work will involve the need to carry out covert surveillance and intelligence collection through the use of lawful interception capabilities (and it is worth noting that Scotland would not be able to define 'lawful' in isolation). There are a range of powers the SSIA would, with a suitable warrant, be able to wield. It should be able to access communications data from communications service providers (CSPs) in relation to a specific target or in bulk if required to identify target communications (a necessary requirement due to the nature of modern packet-switched communications networks).

It would also be able to access content data from CSPs in relation to a specific target. It could engage in equipment interference (for example computer hacking) on a target device. It could access confidential government databases in relation to a specific target (such as medical records). It could deploy surveillance teams to observe and follow targets or utilise covert monitoring equipment. And it could deploy covert human intelligence sources (CHIS) to infiltrate target networks or gather intelligence on targets. While these are intrusive capabilities they are essential in the task of detecting, disrupting and dismantling criminal networks which hide amongst the civilian population and operate in a clandestine manner. Other law enforcement agencies would require similar capabilities to do their work effectively.

In order to ensure these capabilities are used lawfully and proportionately a robust series of safeguards and oversight mechanisms would be put in place. This would include having judicial commissioners to review practices, procedures and conduct, requirements for a minister of state and a senior judicial official to sign off on an interception warrant, the need for approval for a warrant application from the SSIA's internal legal advisors and approval for a warrant application from a senior intelligence officer. There would also be a code of conduct on data collection, handling and retention, a parliamentary committee to scrutinise the activities, expenditure and conduct of the SSIA and an intelligence tribunal to make judgements in cases where complaints have been raised regarding the use of interception capabilities.

The SSIA would require new legislation to give it a statutory basis and replace previous acts of the UK Parliament such as the Security Service Act 1989, Intelligence Services Act 1994, Regulation of Investigatory Powers Act 2000 and Investigatory Powers Act 2016. This legislation should detail the extent of lawful interception capabilities, the conditions under which they can be used and the oversight mechanisms in place to prevent abuse of these capabilities. This is legislation which should be produced by the civil service during the transition period such that it can be scrutinised (both by parliament and the wider public) and passed either in time for independence day or shortly thereafter. This should not slow down the steps necessary to set up an SSIA (which should be led by the National Commission in close cooperation with Police Scotland). Given the transnational nature of modern threats the SSIA would need to work closely with regional and global partners. Membership in bilateral and multilateral intelligence-sharing agreements would therefore be essential in providing access to the information that Scotland would need to guarantee its own security. However strict safeguards would be implemented to protect the privacy of Scottish citizens.

The SSIA would also house the National Cyber Security Agency (NCSA) which would be tasked with protecting Scottish networks from cyberthreats. The NCSA would work across public and private sectors to build resilience to cybercrime, promote best practice and audit cybersecurity measures. It is difficult to emphasise enough how important it is for Scotland to develop substantial capacity on cyber security. While this cannot be addressed by any one country alone and international cooperation is essential it combatting cybercrime, cyberterrorism and state-sanctioned cyber-espionage, this does not meant that a robust ability to tackle these issues domestically is not equally important. Scotland has substantial expertise on IT issues across its colleges and universities and has many skilled graduates capable of building up such a capacity. This is something the National Commission should see as a substantial priority.

Scotland would then need its own national armed forces, and it would need all the service branches including army, navy and airforce. This would be known as the Scottish Defence Forces and it would be tasked with supporting civil agencies, defending Scotland against aggression and contributing to international security. Given Scotland's geostrategic position, the Scottish Defence Forces would be predominantly focused on air and maritime capabilities, with a comparatively smaller land capability. The Scottish Defence Forces would comprise a mix of regular and reserve personnel. Recruitment would be open to any Scottish citizen over the age of 18 who is able to pass the relevant physical and mental aptitude criteria. The Scottish Defence Forces would be overseen by a government department called Defence Scotland, the equivalent of the UK's Ministry of Defence. Defence Scotland would work very closely with foreign affairs and international aid departments (if international aid was a separate department) to ensure policy coherence.

There should be substantial consideration given to the constitutional constraints that would be placed on the Scottish Defence Forces and in particular on the deployment of military forces domestically or overseas. This should include measures often referred to as a 'triple-lock'. In a triple-lock Scottish Armed Forces could only be deployed if there is a clear mandate under international law. Examples would include the right to defend oneself in response to aggression, responding to a request from another national government for military assistance against a threat and supporting a UN Security Council resolution or UN General Assembly 'Uniting for Peace' resolution.

The next 'lock' is that even when a clear mandate exists under international law, the Scottish Government, in concert with the commanders of the Scottish Armed Forces, must be able to articulate a strategy for how the use of military forces can support a political resolution or prevent an imminent humanitarian catastrophe. Examples might include the deployment of forces to separate warring parties, disarm illegal militias or to protect refugee camps and humanitarian convoys. The Scottish Government can then make a recommendation for military forces to be deployed. Finally, there would need to be a vote in the Scottish Parliament. Once a recommendation of military deployment has been made by the Scottish Government it would require democratic approval in order to take effect. Providing that the nature of the crisis did not require an immediate decision, such a vote would be subject to extensive prior debate and deliberation.

This triple-lock would be supplemented by additional safeguards including a Parliamentary Defence Committee tasked with scrutinising the conduct and expenditure of the Scottish Armed Forces and Defence Scotland, an independent military justice system to ensure discipline, the legality of orders and appropriate conduct for members of the armed forces, ratification of the Rome Statute making the crime of aggression an indictable offence under Scottish law and prohibitions on the deployment, use or stockpiling of weapons of mass destruction as well as the use of Scottish territory for the transit or storage of such weapons. It is to be expected that there would be a strong political consensus in Scotland for a constitutional clause requiring the Scottish state to sign the UN Treaties prohibiting Biological, Chemical and Nuclear weapons and any other weapons of indiscriminate mass killing.

The 2017 Treaty for the Prohibition of Nuclear Weapons provides an international framework for a state which at the point of signature has another state's nuclear weapons on its territory. Within a set period of joining, the state has to submit a time plan for the removal of the weapons, immediately making them non-operational and then removing them entirely from their territory under the supervision of the International Atomic Energy Agency. Together these safeguards would constrain the ability of the Scottish military to be used for national or economic aggrandisement and ensure that they are only deployed when appropriate and necessary. Other nations have even more stringent constitutional limits on their military activity. For example, in Mexico it is unconstitutional for its armed forces to operate outside its borders and Ireland is constitutionally neutral. Clearly these are big issues and may not have anything like majority support in Scotland, but the process of establishing a constitution should include serious consideration of what we want our military for.

The Scottish Army would be tasked with deploying land-based capabilities to support responses to domestic crises and provide a contribution to regional and international security. It would be built around a number of light and mechanised infantry battalions with supporting artillery, reconnaissance, signals, medical, engineering and logistics capabilities. These battalions would operate on a 'roulement cycle', a military term where for each active battalion there is one preparing to take over and one which is reconstituting after being active. This ensures a continuous ability to provide a battlegroup-sized contribution to international security efforts such as peacekeeping or humanitarian operations. The Scottish Army would have a comparatively larger set of specialist capabilities relative to the size of its infantry. This would include engineering, logistics and medical units which have extensive utility across the operational spectrum, in both combat and non-combat scenarios. Such capabilities are also typically more difficult to regenerate than infantry combat power in the event of a crisis therefore retaining a larger set ensures that the Scottish Army is better able to adapt to emergent crises.

A small contingent of Scottish Special Forces would also be required to conduct counter-terrorist operations and other special operations, such as long-range reconnaissance patrol, in support of deployed forces. These forces would be similar in size and purpose to the Irish Army Ranger Wing and would train regularly with both national police and military forces. The Scottish Army would be geographically dispersed across barracks in Scotland with a headquarters at Redford Barracks near Edinburgh. This would allow for a faster response in supporting civil agencies during a local crisis and would also allow the economic benefits that comes with supporting army bases to be distributed across the country.

The Scottish Air Force would have responsibility for protecting Scottish airspace and providing air support and logistics to the other Scottish Armed

Forces service branches, civil agencies and allied nations. It would operate Scotland's air defence radar network as part of an integrated air picture with regional neighbours such as rUK and Norway. Remote radar heads in Aberdeenshire and the Outer Hebrides would be combined with civil air traffic data, information from regional allies and other data feeds to give a picture of Scottish airspace and the surrounding area.

The Scottish Air Force would have a number of air defence squadrons which would operate multi-role fast jet aircraft. These aircraft would primarily operate in the quick reaction alert (QRA) role, responding to potential air threats in or near Scottish airspace but would also be capable of supporting international security efforts through the provision of close air support to deployed Scottish or allied forces or as a contribution to an air policing operation. A fleet of transport aircraft would provide the Scottish Air Force with the ability to ferry personnel, equipment and supplies long distances. Such aircraft have utility across the operational spectrum and would likely form an important part of Scotland's foreign policy as an instrument for delivering humanitarian supplies to hard-to-reach locations overseas.

The Scottish Air Force would operate a fleet of maritime patrol aircraft to monitor Scottish waters and provide support to civil agencies, the Scottish Navy and regional partners in customs enforcement operations. A helicopter fleet would provide tactical air transport and support for Scottish Army, Marine and Special Forces units, anti-submarine support and airborne early warning for Scottish Navy vessels and search and rescue. The Scottish Air Force would also have a number of aircraft, ranging from gliders to fast jet trainers, for training pilots, weapons systems officers, ground crews and airspace controllers. The Scottish Air Force would also oversee forward air control training for ground forces. The Scottish Air Force would operate primarily from two bases, Lossiemouth and Leuchars – the latter of which would be reactivated as an airbase from its present role as an army barracks.

The Scottish Navy would primarily be responsible for protecting Scottish waters, supporting civil agencies and providing a contribution to international security. As a maritime nation, Scotland has over 11,000 miles of coastline, nearly 800 islands, critical offshore infrastructure and an Exclusive Economic Zone extending into the North Sea and North Atlantic. Given these geographic circumstances it is important that Scotland possesses suitable capabilities to respond to threats or incidents across its maritime territory. The Scottish Navy would have a fleet of cutters, offshore patrol vessels and corvettes. These ships would function as a coastguard and carry out maritime constabulary duties such as protecting Scotland's offshore interests (energy infrastructure, fisheries etc.), counter-piracy and counter-smuggling. They would be the workhorses of the Scottish Navy and would be primarily tasked with supporting domestic civil agencies as part of customs enforcement or environmental protection operations.

The Scottish Navy would have a number of frigates for contributing to international security efforts and providing a more robust defence capability when required. They would have a modular design, similar to the Danish Absalom-class, allowing them to be adapted for a number of operational profiles including anti-submarine, anti-air or sea lane control operations. The Scottish Navy would have a support fleet comprising a range of specialist vessels including hydrographic survey, mine countermeasures, transport, tankers, tugs and replenishment ships. The Scottish Navy would also include the Scottish Marines, a maritime infantry force tasked with providing fleet protection duties and conducting amphibious operations. They would utilise fast attack craft capable of operating from shore or Scottish Navy vessels.

The Scottish Navy would not initially require a submarine capability unless strategic circumstances change and warrant it, at which point procuring an advanced diesel-propulsion model would be an advisable option. If possible, much of the infrastructure required to support submarine operations from the Clyde would be maintained should this capability need to be regenerated in future.

The Scottish Naval Fleet would operate from two bases – Clyde and Rosyth – to provide optimal coverage of Scottish interests across the north, east and west stretches of its maritime territory. The Scottish Marines would primarily be based at RM Condor near Arbroath.

In the context of supporting a Scottish Defence and Security strategy it is important to recognise the value of the skills and expertise that are present in the Scottish defence industry. Such qualities will be highly sought-after to sustain the supply chain of the Scottish Armed Forces and provide it with the equipment it needs to carry out its tasks. However, as part of a move towards a resilience model it is equally important to recognise that reliance on defence exports is not a sustainable economic strategy and in the context of policy coherence it would be irresponsible to maintain an arms export control regime akin to the UK's present one which involves selling to governments responsible for violations of international law and committing human rights abuses.

In addition, the removal of Trident from the Clyde would negate a significant portion of the defence industrial base that has built up in Scotland to support it. It is therefore inevitable that an independent Scotland would see a reduction in defence exports and a corresponding net contraction in its defence industry. This should not be seen as a cause for alarm but rather as an opportunity to transition infrastructure and highly skilled workers into alternative areas of engineering and manufacturing.

Even with a more rigorous arms control regime Scotland could continue to be a small but significant player in the defence industry as there would still exist a large defence market in countries with well-established democracies. By focusing on innovation in areas of advanced engineering such as sensors, marine systems and robotics, Scottish enterprises could maintain a qualitative edge against competitors not only in the defence sector but also in related civil sectors which utilise these technologies. The increased defence footprint in Scotland resulting from the creation of its own armed forces would result in an increase in the domestic industrial base required to supply and support personnel, equipment and base infrastructure in Scotland. This would go a long way towards reducing the economic impact of a reduction in defence exports.

The need to build vessels for a Scottish Navy would provide a period of certainty for shipyards on the Clyde – but this would not last forever and therefore there would be a need to diversify into the civil maritime sector and renewables to provide a sustainable future for Scottish shipbuilding. This does not exclude the possibility of Scottish shipyards bidding to build military ships for the UK or other nations but success in these endeavours cannot be guaranteed and relying on this strategy alone would be unwise. A Defence Industrial Strategy (as part of a broader National Industrial Strategy) should be published by the government of an independent Scotland at the earliest opportunity. This would give the defence sector an understanding of the capability requirements for the Scottish Armed Forces and the certainty it needs to conduct forward planning and orient their business structures accordingly.

There is no way round accepting that creating and maintaining these institutions will be costly, just as maintaining the UK military is costly. Independence negotiations between Scotland and the UK would determine which defence and security assets would be physically transferred into Scottish ownership and which would be transferred as an asset value instead. The National Commission, which should oversee negotiations (see below), should prepare an outline plan for the equipment the Scottish Defence Forces would require initially and to establish a strategy for how much of this should be inherited (which has the advantage of fast readiness) and how much procured (which has the advantage of enabling more detailed specification of equipment and the ability to procure in Scotland with the economic benefit this brings).

That would produce a strategy for how much military equipment would be sought in negotiations, but given that such negotiations would be heavily politicised it is impossible to forecast what the end result would be. The likely best position would be for Scottish negotiators to start from a presumption towards zero assets being physically transferred with Scotland instead receiving the full asset value for its share of UK defence and security assets.

Though estimates vary considerably, an approximate figure for the asset value of Scotland's share would be around £8 billion. This would constitute a significant 'start-up fund' from which to establish the institutions necessary to implement a Scottish Defence and Security strategy. Annual operating costs would likely be within the £1.8 - 2.5 billion range depending on the fiscal realities facing an independent Scotland and the level of capability it opts to pursue. Procurement costs for equipment would easily take up around half of the £8 billion start-up fund, with recruitment, training and infrastructure taking up the other half. There are however some caveats to this assumption. Not all equipment requirements would be procured right away so this wouldn't necessarily all come straight out of the start-up fund. For the first decade or so, while capabilities and personnel numbers are still building up, a significant portion of annual operating costs could be directed towards procurement rather than on actually operating assets.

The majority of the equipment would be procured 'off-the-shelf' from countries in Europe or the US and the impact of exchange rates (whether a Scottish Pound was pegged to Sterling or not) would be difficult to predict. This would be by far the biggest import required to set up a new country. Building frigates and other vessels required for a Scottish Navy on the Clyde would likely cost more than procuring them from the likes of Denmark or Norway but this would be partially offset by the jobs and tax revenue it creates. And depending on the fiscal constraints an independent Scotland might initially face, lesser-capability or lower-cost options might need to be pursued if capital or operating costs prove unsustainable. This is possible given the low-threat environment for direct military attack from another state that Scotland faces, but this does not lessen the need to develop full capacity as quickly as is reasonably possible.

During the transition period an interim agreement on security and defence will need to be signed with rUK to provide training and support. This would see the continued provision of services such as air and maritime defence by UK armed forces for a period of time until the Scottish Defence Forces have developed these capabilities. As previously indicated, Scotland's geographic position affords it a great deal of security. In the unlikely event of a military attack on Scotland the UK and other NATO members would act accordingly to remove an aggressor on their northern flank. Scotland's affiliation with NATO through the Partnership for Peace program might facilitate an additional incentive for NATO to come to Scotland's aid but ultimately it would be their own strategic interests that drive NATO member countries to intervene, regardless of Scotland's foreign policy alignment. Scotland could therefore take advantage of these circumstances to develop its military capabilities at a more reasonable pace.

A more critical gap might exist in the ability to detect organised crime or terrorist networks without the support of UK intelligence services. Scotland would therefore need to prioritise building these capabilities as rapidly as possible by establishing a training and support agreement with the UK. Developing the technical capabilities for lawful interception would take some time and would be intricately tied to the development of communications law in Scotland. Of more importance however would be the development of information-handling and security measures as these would directly affect Scotland's ability to engage in and benefit from international intelligence sharing. An agency's reputation to be trusted with secret information from another party is the lifeblood of the intelligence community. Without it, sources of intelligence can rapidly dry up. Building this reputation and persuading other countries to trust a new intelligence service takes a significant amount of time. In this regard Scotland would benefit significantly from having the UK 'vouch' for it in the international intelligence community.

A bilateral intelligence sharing agreement between Scotland and rUK would be one of the SSIA's first priorities. However it should not be assumed that such an agreement would automatically compel rUK to share all intelligence it collects with Scotland. In the world of intelligence, realpolitik triumphs and governments are only willing to share valuable and hard-won intelligence if it is in their interest to do so. Frank discussions would also need to be had with rUK government on the possible presence of infrastructure in Scotland supporting GCHQ programs such as TEMPORA, MUSCULAR or STATEROOM. Given the integration of telecommunications networks in the UK and the fact that the majority of Scottish internet traffic flows through submarine fibre optic cables located in England this issue is likely to be both technically and politically complex to resolve.

Given the 'breathing room' provided by Scotland's relatively secure position, the development of the Scottish Defence Forces should focus on training and logistic infrastructure over combat capabilities. The former provides Scotland with an indigenous ability to generate and sustain the latter, thereby reducing long-term reliance on other countries. The Scottish Defence Forces would likely encounter some difficulties in the initial recruitment of personnel. The willingness of service personnel to transfer from the UK armed forces would likely be low and therefore Scotland should not count on starting off with a large body of experienced officers and technical personnel.

This would necessitate the secondment of some skilled personnel from the UK armed forces for an interim period until Scotland had recruited and trained sufficient numbers of its own. In this regard there a number of circumstances which could benefit recruitment into the Scottish Defence Forces. In the event of independence an upsurge in patriotic sentiment could be hoped to inspire individuals to join up with the SDF. Perhaps as importantly, the different character of the SDF, separated from the UK's brand of militarism, would open up recruitment to individuals who otherwise wouldn't have considered military service. It is also likely a number of personnel from the UK armed forces may wish to transfer to the SDF if it is perceived as providing a similar level of reward for significantly reduced risk. This may be especially true for experienced personnel with families. The SDF will likely be more integrated with local communities due to their focus on domestic duties, offering a closer community bond for service personnel. In terms of seeking recruits with technical skills, the downturn in the oil and gas industry could see a number of individuals seek out alternative careers with the SDF, potentially yielding a number of recruits with valuable technical experience.

Scotland has a comparatively small proportion of defence training estate located within its territory, necessitating an interim period of reliance on rUK and other allies. As a priority, Scotland would need to develop a National Defence Academy for training officers and developing training doctrine. This facility should ideally be located at Faslane to compensate for the reduction in personnel resulting from the removal of Trident. Until this facility is complete, the first tranches of Scottish officers would need to be trained at rUK facilities such as the Royal Military Academy at Sandhurst. Manoeuvre training for infantry and armour at scale would also likely require access to rUK training estate such as Salisbury Plain or BATSUB in Canada. Continued access to these sites should be explored as part of an enduring mutual defence agreement between Scotland and the UK.

The Scottish Defence Forces would however inherit some portions of training estate from the UK including a number of live firing ranges and the strategically significant Cape Wrath training area. Cape Wrath is used regularly by the UK and NATO armed forces as part of the bi-annual Exercise Joint Warrior and other live firing training operations. There is not another available and suitable site in Europe for such exercises; the need for a constructive military partnership between Scotland and rUK and NATO is absolutely not a one-way relationship and is an example of why Scotland would not expect to enter independence negotiations with rUK or as part of negotiations with NATO to secure access to intelligence and resources as part of the Partnership for Peace integration process purely as a supplicant but rather as a partner with irreplaceable strategic advantages. Scottish participation in Exercise Joint Warrior would also give it valuable experience of how to conduct joint operations as part of a multinational coalition.

While rUK would be Scotland's most significant training partner (playing a similar role in building Scotland's military capabilities as they have done for former colonies like Australia) Scotland should also pursue training opportunities with neighbouring countries like Ireland, Norway and Denmark. This could include personnel exchanges and joint training exercises aimed at relationship-building and improving the interoperability of each nation's forces. Participation in UN peacekeeping operations could help build operational experience and inform the development of Scottish military doctrine. As the UN would underwrite the cost of these operations this could be a relatively low cost (or possibly cost-neutral) way to give valuable hands-on experience. Such operations would however only cover the 'light' end of military operations and would need to be supplemented by training in higher intensity scenarios to ensure that Scottish forces are sufficiently capable of defending Scotland during a crisis.

Scotland would face similar difficulties in recruiting and training intelligence officers and analysts for the SSIA. Again, Scotland would require the secondment of experienced personnel from UK intelligence agencies as there would likely be a low transfer rate. The SSIA would be however able to recruit domestically from a wide range of professional backgrounds including law enforcement, social sciences, computer science and business intelligence analysis. Scotland's universities could help produce a pool of experienced candidates; however the growing demand for skills in certain areas, such as cybersecurity, could drive much of this talent into the private sector or overseas as competition increases. Scotland's National Cyber Security Strategy should therefore focus on attracting and retaining talent.

The issue of defence is an emotive one and there is no outcome that is likely to please everyone. Those who incline to see attacks as credible and worrying are seldom content with a risk-based analysis while those who incline to see military activity as negative and unnecessary are often unwilling to countenance the investment needed to create a strong defence system. It will be a tricky task to keep both camps happy. A process as described above is best placed to achieve that. Perhaps more importantly, once completed it would provide Scotland with domestic security which is likely to be better suited to the real threats Scotland faces than is achieved under the 'power projection' pretensions of UK defence policy.

Scotland's social security

Just as importantly as Scotland's ability to protect its citizens from external threat is its ability to protect them from the economic threats they face domestically – of losing a job, of not having enough income to support a family, of losing income on retirement, of having a disability and so on. The creation of the universal welfare state in the post-war years has created the model that we understand as providing 'social security', collective insurance that each of us individually will not suffer from the threats to wellbeing that we may face in our lives. Maintaining (and indeed strengthening) this system is essential.

The first thing to say about the UK's social security system is that it is incredibly complex, partly because it has been made more and more punitive by successive governments. It is very difficult to imagine that a new state establishing its own social security system would want it to look like the UK system. At the same time, clearly Scotland does not want to leave anyone disadvantaged during the move to independence and so must ensure that the most vulnerable groups in society are not harmed by the process of Scottish independence.

There are different types of benefit. Universal benefits are given to everyone irrespective of their previous tax contributions, their current income or any other factor other than core eligibility. Examples are the state pension (which everyone gets at an age threshold) and child benefit (which anyone with children will receive). A contribution-based benefit is one that is based directly on what you have previously paid in. There aren't really any examples of this left in the UK system but National Insurance maintains some element of it because while the benefit itself is flat-rate and universal, there is a threshold for years of contribution before eligibility is achieved.

Finally, there are selective or conditional benefits where you must be assessed for eligibility such as disability benefit and tax credits. Some of these then 'taper' as the income of the recipient changes with increases in income meaning reductions of benefit. This creates the well-known problem of the 'benefit trap' where there is a disincentive to increase income because the loss of benefit is greater than the gain.

The UK system has more than 30 individual benefits, each of which can have an additional range of different eligibility requirements. The 'top six' benefits are pensions, housing benefit, child tax credits, employment and support allowances, disability living allowances and child benefit. Between them these make up more than 80 per cent of all social security expenditure. The UK is currently undertaking a major shake-up of the social security system with a 'Universal Credit' intended ultimately to replace the majority of the means-tested benefits and tax credits (and there are substantial cuts to benefit levels disguised in the introduction of Universal Credits).

There is much debate about how effective this will be and what impact it will have; it undoubtedly simplifies the benefit system, but mainly to the financial detriment of those receiving benefits. However, even with a protected level of benefit there are many criticisms of Universal Credits (such as eligibility being assessed including partners' income which could potentially trap people in abusive relationships). And it is important also to factor in the sharp increase in aggressive benefit 'sanctions' which have been introduced in recent years which impose sometimes savage withdrawals of emergency income from people in most need as a result of even slight failures to follow often fairly arbitrary rules. Outside a very narrow set of conditions, immigrants and asylum seekers in Scotland generally do not have access to benefits.

Social security is an expensive but crucial aspect of government. Until recently the Scottish Government had no role in either policy-setting or administering benefits, but as has been discussed above, this is changing with the enhanced devolution settlements Scotland has had in recent years. The establishment by the Scottish Government of a nascent social security service makes the transition to independence substantially easier and the major technical aspect – putting in place the IT systems to administer benefits – will be in place by the time of Scottish independence. The means and cost of extending these systems to cover all benefits has also been discussed above. Maintaining the system as it currently stands would therefore be a fairly routine matter – if Scotland was to adopt a 'status quo' approach. However, there should be serious consideration about whether Scotland would want to emulate the UK system which would 'build in' the same problems the current system already has and potentially make reform by a Scottish Government after independence much more difficult.

This is a grey area in terms of what a National Commission should do during the transition period. On the one hand, it ought to be working on a 'future-neutral' basis to enable whatever government is democratically elected after independence to pursue its own political mandate. On the other hand, this may not be best achieved by embedding a system which it is highly likely an incoming government would want to reform. During the interim period benefits would continue to be a split responsibility as they will probably be by the time of an independence referendum. Immediately after independence an incoming administration may wish to change the system with anything from a tidying-up process to a complete redesign being possible options. But with both the design and implementation of the system being time-consuming, that would mean that there would be an extended period during which the existing system would continue – and it is a system which is very widely criticised in Scotland. This is an area where there may be a strong case for cross-party political lead on this rather than the more technical lead role that a National Commission would take (though either way round the National Commission would do final design and implementation of the transitional phase).

So one possibility would be a cross-party convention to explore the policy options for a 'starting-point' social security system in Scotland; not a final destination but a point from which all (or most) political parties are content to begin. There is a range of options for what could be done, but it is not endless. A 'tidied-up' status quo with the basic benefits kept in place but the more ideological punitive elements (such as aggressive sanctions and 'rape clauses') removed. It could of course be tidied up to varying degrees, and what is being 'tidied up' will of course depend on the state of the UK benefit system at the time of independence, particularly the success or otherwise of the introduction of Universal Credits. A more radical 'tidy-up' model would be to take steps to move closer to a Nordic style of welfare state which is still a collection of universal, selective and contributory benefits but at a much more generous level. This is a more substantial political decision since it would bring significant additional costs (though also significant additional economic benefits).

More radical again would be to examine the possibility of shifting the system to or towards a different model altogether. Two options here would be 'negative income tax' and a Citizen's Basic Income. The former of these involves setting 'negative' income tax rates at a certain point in the income scale such that if you fall increasingly below a certain 'survivable' threshold of income rather than paying tax to the state (a 'positive' tax rate) the state pays progressively more money to you until you achieve that basic 'survivable' income. (This threshold level could of course be more generous than just 'survivable'.)

A better known solution would be to move to a Citizen's Income or Universal Basic Income scheme. Here everyone in the country receives a regular weekly or monthly income which is paid at a flat rate (with some stepping – for example, students could potentially get a different rate than the basic adult rate and pensioners would be likely to get an enhanced rate, with the parents of children receiving a substantially reduced rate per child as a child benefit replacement). It is possible to create a system which pays everyone the basic UK Jobseeker's Allowance rate with children getting the existing Child Benefit rate and pensioners getting the State Pension rate on a cost-neutral basis if tax allowances and thresholds are removed (such that everyone pays tax from the first penny of their income). This would improve or have no negative effect on the financial situation of over 80 per cent of the population without increasing tax rates. In both cases (Universal Basic Income and Negative Income Tax) there remains the need for a number of selective benefits to address specific additional need – most obviously to support those with a disability.

There is now a very substantial literature on the economic and social benefits of a Universal Basic Income (as well as some critiques) and many people now believe this is the future of the welfare state. However, it is a very substantial policy change (as is also the case with a negative income tax) and so it may take much more democratic engagement than would be possible during the three-year transition phase to gain sufficient political and public consent for such a move. On the other hand, it may be that there is sufficient political consensus that this is a direction in which we should move such that the interim system (perhaps structured on the basis of a more generous Universal Credit model) is designed to enable future transition.

The single biggest social security cost is the state pension. It is also one of the most sensitive issues in the independence debate partly because of the relationship between pensioners and support for independence but equally because more than any group (other than perhaps disabled people), pensioners are often wholly reliant on this benefit for survival on a long-term basis. The problem of long-term sole dependence will increase in the future as a result of the widespread failure of the occupational and private pension systems in the UK. The issue has also been picked up in terms of the long-term sustainability of being able to maintain a pension in the future in Scotland because of calculations about 'dependency ratios' (how many people will draw on the state pension in ratio to the number of people paying tax to fund a state pension).

The purpose of this book is to look at the transitionary period and not to project into the future. Suffice to say that dependency ratio issues are consistent across Europe (and much of the world) and long-term demographic predictions (which have sometimes been used to imply Scotland would be particularly badly hit by this problem) are notoriously inaccurate, failing to take into account multiple unknown factors such as changes in fertility rates (how many children are born) and immigration rates. Scotland at the moment has one of the worst records for population growth of a developed country and it is unlikely that independence would do anything other than start to reverse that pattern.

So the pension question is a problem for all nations with a welfare state, most certainly not just Scotland. And here, like elsewhere, the range of options for resolving this problem through changes to the pension system (rather than seeking to influence dependency ratios) is limited. Pensions come in a range of models, primarily divided into contributory and non-contributory versions. In contributory versions a citizen pays money throughout their life to create a pension fund (virtually always 'pooled' with many other people to create a much larger pension fund that is capable of generating greater returns). The fund is then managed over the lifetime of the contributor to maximise its growth and this figure is the amount it is able to pay out.

There are two primary forms of contributory pension – defined contribution and defined benefit. The former states how much you pay in over a lifetime and then you are paid back whatever that has created as a final pension pot. It is much riskier for the contributor – if a pension fund is mismanaged or if there is a prolonged downturn in the markets in which the fund is invested, the size of pensions that the contributor will have to live on can be substantially reduced. A defined contribution scheme leaves the contributor in uncertainty, and in the UK a wave of pensions mis-selling and rampant profiteering in the pensions industry meant that many people received pensions much smaller than they expected (which led to government intervention and punitive damages being imposed on the worst offenders).

A defined benefit scheme works the other way round. Here you are offered a guaranteed size of pension (perhaps linked to your 'final salary' or as an index-linked sum), but this means that your contributions will have to change to ensure that the fund is meeting its targets. And that fund will cover many people at many different stages in their careers. So not only do contributions need to change if the investment returns of the pension fund change, they may also change if the ability of the overall fund to meet its promises is compromised by its total portfolio of contributors or demographic assumptions about them in future. If large numbers of people are retiring at larger-than-predicted salaries in a final salary scheme, it may mean that the fund is unable to pay out so everyone in the fund will have to make larger contributions. The same is true if a large number of younger people join the fund but are then contributing over a period in which returns are lower and therefore everyone would have to pay more to ensure that the new entrants were also achieving promised outcomes. And if people live longer than projected, drawing a pension for a longer period of time, this too affects the fund's ability to pay out and can cause contributions to rise. Of course, contributions can fall too if these factors go in the other direction.

But by far the main problem with the contributory scheme is the long-term returns on investment being generated by the current global economy. Put simply, they are far too low to make contributory schemes work in the way they did throughout the post-war decades (up until about the last few decades). Putting the same relative amount of money into a pension fund now as in comparison to the 1960s or 1970s will return a much lower pension. This has therefore become an increasingly unattractive option for a lot of people. And it means that there is greatly reduced scope for contributory-based schemes to resolve issues at the national level. While there was a time that a national pension fund to create a kind of contributory state pension might have been feasible as an alternative to the non-contributory system we have now, that is unlikely to be the case for the foreseeable future.

This means that there is little option other than to create a state pension system based on a non-contributory model. This is actually something of a misnomer since it is not actually the case that those receiving the pensions have not 'contributed'. They have, through the tax they paid throughout their lives. It's just that this was done as a social contract – when they were working they contributed to the pensions of those who had retired, and then when they retire they in turn will receive a pension made up of contributions from those who are still working. This 'revenue-based' scheme has been highly effective. One of its most important features is that there is no expectation that returns will be linked to contributions – people who have lived a whole working life on lower wages are not condemned to a state pension which is lower than that of people whose working life was in higher-paid employment. Pensioner poverty in the UK is bad enough without exacerbating it by injecting inequality into the state pension system.

All of this means that in setting up a state pension model for an independent Scotland, there are very limited options and a model extremely close in structure to the current UK model appears to be the only option. This does not mean that there couldn't be improvements and enhancements to the system now or in the future. For example, it might be possible to create a 'state pension enhancement' option. To make up for the collapse in private and particularly occupational pensions a national opt-in scheme which provided the option of paying extra over a working lifetime to get an additional sum added to the state pension might be possible. Even if the state pension is replaced by a Citizen's Income (one of the more likely future developments), the actuarial and economic implications remain the same – which is to say the same people living for the same time receiving the same money will cost the same whether it is state pension or Citizen's Income.

At this stage it is necessary to look at the relationship between the rUK Government and pensioners or those approaching pension age who have contributed all their life (through tax) to the UK state pension model but who will soon live in an independent Scotland. The position of the UK Government is that people who have contributed all their lives will receive their pensions irrespective of where they retire. Thus British citizens who retire to Spain still receive their UK state pension. At face value this should also apply to Scots who retire in an independent Scotland after a life contributing to the UK pension. Assuming this commitment was honoured in full by the UK Government it would mean an enormous amount of Scotland's pension burden for the early years and decades after independence would be borne by the UK Treasury, until gradually Scots started to retire who had not reached the threshold of contributions to National Insurance payments in the UK. However, some unionists argue that if Scots chose independence then they have chosen to relinquish the rights of a British citizen and so would relinquish the right to the state pension of a British citizen.

Independence supporters in return point out that the commitment is one made to individuals – an individual pays tax for many years based on an individual commitment that this will entitle them to certain non-negotiable benefits. The unionists in turn might argue that the benefits are not non-negotiable in that the state pension changes all the time and so the promise is not defined. This debate can go back and forwards indefinitely. This is the ultimate meaning of 'sovereign parliament subject to national law'. In the end, Westminster can do anything it wants – unless it is challenged legally and the thing it wants to do is deemed illegal. Westminster could therefore unilaterally decide to cut off the UK state pension to Scots and the Scottish Government might be able to do nothing about it. But in turn, individual Scots could challenge that decision in the UK Supreme Court and the Court could overturn Westminster's decision. Fundamentally, the outcome of this is unknowable.

In the end, this is most likely to be resolved as part of the negotiation process between Scotland and rUK after an independence vote (to be explored in detail below). Anything might be possible from a hostile split in which rUK refuses to acknowledge any pension liability but Scotland walks away with no share of the UK debt through to a compromise where there is some transitionary arrangement or some partial one-off contribution from the UK (possibly in the form of reduced debt obligations on Scotland) to a situation where rUK is compelled to keep paying state pensions to Scots whether it wants to or not.

As has been seen throughout the process of the UK's exit from the European Union, it is much easier to say 'I'm walking away from my apparent commitments' than it is to do it. And yet that is only the case if both sides want a fully negotiated settlement. The simple conclusion from all of this is that Scotland should of course negotiate hard and see the pension question as one of the key elements of its negotiating strategy, but that whatever it does it must put in place a state pension scheme which is capable of delivering a full state pension to Scottish pensioners in the event that negotiations do not deliver what Scotland wants.

So Scotland has to build a fully functioning social security service. As has already been discussed, this is much easier than it would have been because of the impact of devolving some benefits to Scotland. The IT system would need to be expanded, a citizen identifier put in place and payment systems for the full range of benefits created. And then staff would need to be recruited to operate the system. All of this is routine and has been covered above – there is no technical difficulty in implementing this system.

The welfare state in Europe is one of the most important and effective social systems which has ever been created in human civilisation – but it is a complicated and costly system which is repairing problems caused by an economy which is not working properly for everyone. Creating one in Scotland will be exactly like maintaining one anywhere else in Europe – technically straightforward, politically complicated.

Paying for the good society

The other half of the welfare state 'deal' is progressive taxation – that the public services and benefits system will be paid for by all of society in relation to how much they are able to pay. For the interim period in setting up a Scottish state, the issues around taxation are very similar to those around the social security system – technically, they're not hard to put in place (and much of the work is already underway as more tax powers are devolved) but in terms of the policy and the politics, its more difficult to know what 'status quo' to impose on incoming Scottish Governments.

The technical issues have mainly been dealt with in the consideration of IT above. The basic infrastructure for identifying citizens and businesses is in place or soon will be and the technology to collect a limited range of taxes will also soon be in place. The task of extending this to be able to pay a wider range of taxes is straightforward. There is substantial human capacity in the tax collection field in Scotland that recruiting a workforce to operate the tax system will not be difficult. The questions, again, revolve around what sort of interim position to take.

And again, they stem from the fact that, even more than the social security system, the UK's tax system is a complicated mess which few believe is really fit for purpose. Even more so than in the case of social security, the work involved in replicating such a flawed but intricate system in the almost certain knowledge that any incoming Scottish Government would want to reform it in substantial ways or possibly redesign it from scratch seems to be effort it would be unwise to expend. However, tax is a deeply sensitive issue and there will always be loud voices against reform – largely emanating from those who benefit from the blatant injustices which are 'baked into' the UK system. It is almost impossible to do anything at all with tax without creating a perception that there will be 'winners and losers'. And the losers will always feel aggrieved, even if objectively there is little for them to feel aggrieved about. Certain commentators continue to see the UK as the benchmark for Scottish tax because we're in a single 'economy' – even though we are effectively in a single European market in which we're one of the lowest taxed of all countries. Tax rates in Scotland and the rest of the UK have never been exactly the same anyway because of local taxation and there has been further divergence in tax policy since the most recent devolution settlement.

This means that the same problem exists for tax as for social security – how to implement a policy solution which is sufficiently close to the spirit of 'future neutral' such that it doesn't tie the hands of an incoming government (to force it towards reform) or take place outside the realm of democratic accountability but does not embed blatant errors, mistakes and injustices simply because they 'already exist' and thus does not tie the hands of an incoming government in the opposite direction (to force it towards the status quo). Again, the only solution to this might be a cross-party convention in which sensible compromises are sought which can achieve consensus or at least substantial majority support.

An immediate solution would be to set out a number of principles for a tax system which can be agreed, based on the Universal Declaration of Human Rights. These might include the following. A State has a duty to protect its citizens. A State has a duty to provide public goods for its citizens. A State may not discriminate in the provision of protection or provision for its citizens. The extent of the provision to be supplied by a State shall be determined by democratically elected governments. The right of a State to determine its will shall not be constrained by the actions of another State. A State has the right to levy taxation. Any charge to tax must respect the right to hold private property. The charge to tax must not be arbitrary. Taxation must be imposed by law.

All citizens of a State shall be subject to the same taxation laws. Each citizen has the duty to pay the tax due by them. The citizen shall have the right to appeal against any charge to tax. The State may only oblige a citizen to disclose that data required by law when requesting information for the purposes of assessing their liability to tax. A citizen shall have the right to leave the State and its protection and shall as such deny themselves the right to its provision but be relieved of the obligation to contribute to its upkeep. It should be noted that underpinning a tax system with these principle does nothing to suggest the final form of an actual tax system and could be applied to many different systems.

It may then be very worthwhile considering the economic assumptions which underpin a tax system. Traditionally, tax was seen in a 'household accounting' sort of way. If you want to buy bread for the household you must first secure money. Income therefore pays for expenditure. So if you want to provide a state pension for older people, you need to raise taxes to pay for it. However, there is now a substantial body of thinking (including within central banks) which suggests this is simply incorrect. The argument is that since the end of the gold standard, money is not actually 'defined' by an intrinsic value (a promise to pay the bearer a certain value in gold) but rather by an agreement between those using it to exchange at a given value which changes. This was seen quite clearly during the banking crisis where 'quantitative easing' (very roughly, the creation of new money by the central banks) was used extensively but the value of 'money' did not decline proportionately to the increase in the supply of money (which was slightly mitigated because some of the money was used to buy government debt and not put into circulation). The market 'accepted' that this new money had the same value as all the existing money and that while it had some impact on the value of the existing money, that was only loosely linked to how much new money was created.

When this understanding of money and the value of money is accepted, the relationship between income and expenditure (taxation and spending on public services) becomes much more complicated – but much more realistic. Here there is more than one way to create money, and more than one use for tax. Actually, most public expenditure is effectively paid by creating debt in the national currency and then 'destroying' that debt with tax. In this system a country with its own currency cannot go 'bankrupt' because it can always create more money. But that money would then cause inflation and a drop in the value of the currency. So in reality what happens is that rather than a simple 'household budget' metaphor, tax, spend and monetary policy are all linked.

Tax creates income, but it also manages inflation and influences currency value. Income can be created from tax – or from various forms of 'money creation' such as quantitative easing. Expenditure can be from revenue or from capital or by creating debt. Every penny that goes 'out' does not need to be matched by a penny coming 'in' so long as overall tax and money policy controls inflation and currency value. This way of understanding tax, money, debt and expenditure underpins a range of new thinking on modern monetary policy.

So tax has a number of purposes. It 'reclaims' the money government has borrowed or created to spend on public services. It underpins the value of currency by creating a permanent, sustained 'market' for the domestic currency (which must be used to pay tax). It can be used to reorganise the economy, for example by incentivising or disincentivising different activities. It redistributes income and wealth around the economy and so prevents destitution and social breakdown. And it helps to 'reprice' goods and services which the market is not pricing correctly, for example by capturing the value of 'externalities' (the knock-on costs, often environmental, of the production of goods). It is important that all six of these purposes are properly integrated into the design of a tax system from the beginning.

Once these very general principles about tax and money are understood, we can create a set of specific principles for a Scottish tax system. For example, it must deliver the macroeconomic goals of the Scottish Government. It must be able to reflect the social priorities of the Scottish people. It should encourage the engagement of all Scots in the democratic system. It should reduce economic and social stress within Scotland (and between Scotland and other states). It should encourage truthful, tax-compliant behaviour. It should minimise opportunities for tax abuse. It should be integrated with other laws such that it creates compliance and thus a level playing field for all businesses operating in Scotland. And the tax management and collection system must be adequately resourced to achieve all of these outcomes.

This creates a number of suggestions for what 'best practice' would be in organising the governmental oversight of tax. First, that there should be a minister responsible for tax, who need not be the Finance Minister (who is responsible for resource allocation). Second there should be a ministry for tax which is independent of (but would clearly liaise closely with) the Finance Ministry. Finance sets out a spending plan, tax sets out a strategy for enabling that plan. The separation makes clearer the relationship – tax is secondary to the social and economic requirements it is needed to meet. And third, that tax collection should be politically independent and there only to enact agreed policy.

Given that the development of Revenue Scotland is well underway it clearly makes sense that Revenue Scotland would become the tax collection agency. This would all have to be properly monitored and the Tax Minister and Revenue Scotland would need to be held to account by a dedicated parliamentary committee, and that committee would need to be resourced properly. There should also be an Office for Tax Responsibility to monitor both policy and its implementation to ensure that blatant failures of the tax system (such as the failure to collect tax because of evasion) are highlighted and tackled. The UK does not have such a function and this should be remedied in Scotland.

It is important that Revenue Scotland is not modelled on HM Revenues and Customs which has a poor track record. It is seen as being too close to big business, being far too close to big law and accountancy firms which specialise in tax avoidance, being selectively hostile to smaller businesses and being lenient on the wealthy but inflexible towards those with low incomes. There should therefore be serious consideration given to the governance of Revenue Scotland which must be robust. That governance structure should contain representation of all interested parties – big business, small companies, the self-employed, pensioners, trade unions, staff, the voluntary sector and social enterprises, civil society, local authorities and tax professionals.

It should emphasise consistency, transparency and accessibility – for example, reversing the closure of local offices. Staff must not be recruited in a 'revolving door' from big business, big finance and the tax avoidance industry. And it should enable government to produce really informative information which any citizen is able to access at multiple levels of detail, outlining what is raised, how it is raised, what is spent and how, what has failed to be collected, what different groups have contributed what volume of tax and – fundamentally – a clear statement on what each tax is intended to achieve. This is necessary to increase public confidence in the tax system and to enabling much more effective third-party scrutiny.

It is then essential that the tax base is very robustly defined such that there is an assumption towards inclusion. At the moment the UK tax system only taxes things which are explicitly identified in the tax system, which enables all kinds of avoidance activity. Instead, entire categories of transactions and assets should be included in the tax system to end this practice. There must then be ongoing, rigorous monitoring of tax base data to ensure that people resident or working Scotland, companies active in Scotland (whether they are registered here or not), those trading here, those importing and exporting, those who are in employment, and details of asset ownership (such as land and buildings, shares in companies, bank accounts and other valuable properties such a patents and copyright and moveable assets such as vehicles and boats) are all methodologically captured on an ongoing basis. This research and investigation function is crucial to tax justice and should be built into the system from the beginning. It is also important that all these activities and assets are accurately priced so that accurate tax base information is available.

It is then possible to identify the kinds of taxes that Scotland must have. There will be a tax on income – from any source including investment income from any source. There will be a tax on company profits and on capital gains. There should be a wealth tax and VAT (although there is an argument for changing a 'value added' tax to one based on 'carbon emitted') as well as transaction taxes (for example stamp duty) and specific excises (on oil, alcohol, vehicles, tobacco etc.). There will be customs duties on imports, land-based taxes (though these are often local in nature) and specific policy-based taxes (carbon taxes, landfill tax and so on). There is a strong case that National Insurance should be rolled into income tax, but it could remain a stand-alone tax.

Almost all of these taxes (other than wealth taxes) already exist in the UK tax system. But it is absolutely essential that the failures of the UK tax system are, as far as possible, not imported into the Scottish system. The range of problems in the UK system is extensive and even listing the failures and problems would take pages and pages of this book. Some are straightforward – we need more tax bands in income tax and many fewer allowances, corporations should be taxed on activity and not only on stated profit to prevent international 'transfer pricing' designed to avoid paying tax, capital gains should be taxed as income. Others are much more technical (capital gains tax should be applied to the accumulated capital gain inherent in the sum realised on death on disposal of a former principal private residence taking into account all such properties owned during life).

There are also a series of steps which can be taken to greatly reduce tax abuse. For example, the intention and purpose of taxes should be stated rather than just rates and targets so it is possible to interpret much more accurately whether something ought to be taxed or not if there is a dispute. International tax should be based on United Nations principles (which count against international avoidance) and not OECD principles (which enable it). Again, there is not scope to cover all of these steps here (though as with all other parts of this book, much more information is available in the Common Weal papers on which it is based).

Even if Scotland is to redesign a tax system which is as close as possible to the existing UK system, it must be rationalised and simplified and the widespread opportunities for abuse must be identified and removed. This is a potentially substantial task, but since the losses to the public purse which result from these activities are worth many billions of pounds to Scotland every year, there are few more effective investments of time or effort which can be made during the transition process. Ideally, a political convention (which included civil society as well) would agree these principles and approaches early on during the three-year transition and the National Commission would then seek to implement them in designing a baseline tax system. This will undoubtedly be one of the more intensive tasks which the Commission will have to undertake and it is a task which must be fully completed by the time of independence (so that taxes can be raised to keep the public realm funded). It should therefore be treated as a priority. The alternative is to fall into a continuation of the UK system which it might then take many years to unpick and replace.

Communications and the media

A modern, functioning democracy needs a modern, functioning media. It is a place for holding power to account and for creating openness and scrutiny, it is a debating place where ideas are put forward for public consideration and discussion, it is a space where we are able to 'see ourselves' and explore our identity, it is collective space which creates a degree of social solidarity, and it is a showcase, a source of information, a record of our era. Or at least, this is what a functioning media should be.

An independent Scotland will have an opportunity to create the conditions which are best able to encourage a positive, sustainable and effective media. Much of whether this will be achieved rests on what happens after independence – how politicians intervene or don't, how existing news outlets respond, whether new ones emerge, how well a national broadcaster does. But there are a number of practical steps which must be taken during the transition period to enable the development of that media. These mean putting in place the support and regulatory functions which are necessary to enable an independent media.

This first of all means creating a Scottish 'Ofcom'. Ofcom is the UK communications regulator which oversees and regulates broadcast, internet broadcast, phone and postal services in Scotland. More specifically, it is tasked to ensure that the UK has a wide range of electronic communications services, including high-speed broadband, a wide range of high-quality television and radio programmes are curated and that television and radio services are provided by a range of different organisations. It takes action to make sure that people who watch television and listen to the radio are protected from harmful or offensive material, from being treated unfairly in television and radio programmes, and from having their privacy invaded (this now applies to streaming video on demand services as well). It also ensures there is a universal postal service with six days a week, universally priced delivery and collection service across the country. It also has to make sure that the radio spectrum (the airwaves used by everyone from taxi firms and boat owners, to mobile-phone companies and broadcasters) is used in the most effective way.

Ofcom is effectively a licensing, regulatory, monitoring and technical specification organisation with statutory power to act to intervene according to the duties that it is expected to carry out. While it might be possible to agree some form of sharing relationship with Ofcom which would mean it continued to regulate both Scotland and rUK, it is preferable for Scotland to create it's own system (though on a number of matters including ensuring an effective cross-border postal system and the allocation of the radio spectrum it will be required to coordinate closely with Ofcom even if it is a separate organisation).

While there are some very specific technical requirements involved in setting up a Scottish Communications Regulator, this is another case where the primary issue is recruiting people with the experience necessary to oversee the work of the agency (and ensuring that they have the IT infrastructure needed to carry out their work). Because of the number of cross-border issues involved it is also very likely that the establishment of a communications regulator will be affected by the secession negotiations with the rUK. The National Commission should therefore oversee the creation of the regulator and should do so by taking Ofcom as its broad model (adopting similar forms of statutory mission). The regulator should be designed in close cooperation (as far as is possible) with Ofcom and the rUK government. If Scotland wishes to rejoin the EU this also brings a number of clear regulatory requirements (and, usually, an ability to show a track record of these being in place). So Scotland would do well to talk to the EU as part of the process of setting up regulation to seek to be at least in the best place to apply to rejoin if it chooses to. This means that there may be a need to hold fairly close to the current Ofcom approach.

At this point the thorny issue of press regulation must be considered. This issue is thorny for two reasons. The less legitimate of the two is that the print media is very hostile to any form of regulation – and of course, being the media they get to set the news agenda. As we saw at the end of the Levinson inquiry, it doesn't matter how egregious the practices (and even crimes) of the print media become, even so the print media presents regulation as some form of totalitarian intervention into the rights of free speech and the democratic society.

This position is self-serving and appears utterly non-self reflective on the part of the media, but it has scared off successive governments from taking any serious regulatory actions. This is the bad set of 'thorns' around this issue. However, there is also a concern which really must be taken seriously which is that it would be a substantial mistake not to recognise the risks involved in letting politicians regulate the media too closely. We only need to look at the substantial government pressure put on the BBC in the aftermath of the Iraq War 'weapons of mass destruction' scandal to understand why allowing politicians too much power over influencing and at worst suppressing the news agenda is dangerous. At the moment there is an awful lot of anger and mistrust towards the media (or at least parts of it) and the nature of the constitutional debate in Scotland has meant that these feelings are often more intense here. There is a risk that this may make people sympathetic to an undue degree of control over the media, a degree of governmental influence which they would almost certainly regret at a later date.

This issue requires some careful consideration. It is possible, sardonically, to suggest that there's no rush because if the Independent Press Complaints Commission was no longer there, no-one would notice anyway. It is also possible that Scotland could continue to participate in the IPPC model after independence given its loose and voluntary nature (there is another independent regulator called Impress set up as an alternative and more independent regulator but most of the large publishers boycott it). However, the IPPC is made up mainly of industry figures who regulate themselves and the experiences of people who use the system to try and get justice over bad reporting are not generally particularly positive – and this is to put it mildly.

This is not the place to debate the shape and nature of press regulation, but it will be important that the National Commission undertakes to begin this work from an early stage. It's decision-making processes on this subject must be protected from too strong an influence from the news publishers, although their input must of course be taken seriously. Principles should be established – for example, that it should be independent, that its arbitration should not (as per the IPCC) involve the industry making judgements on itself, it should have the ability to impose strong sanctions and restorative practices for those who have been treated unfairly in the pages of newspapers. The biggest issue of contention is whether it should be statutory or not – whether the government can impose a requirement for print publications to be subject to consistent regulation – or whether regulation should be optional, meaning even if there was an independent public news regulator any individual publisher could simply fail to recognise it and continue as it wishes (subject of course to Scottish law on issues such as defamation). The press industry strongly opposes statutory regulation, though it is unlikely that this is a position shared by the public given some of the practices of the media which have been uncovered in recent years. There is also a question of whether a press regulator should be separate from or part of the wider communications regulator. This should also be consulted on.

If these steps are taken, Scotland will then have the regulatory framework in which to enable a responsible, independent and effective Scottish media to grow. Attention then needs to turn to broadcast media. The BBC may have its flaws, but it remains a first-rate producer of television programmes and most Scots will of course want to continue to have access to those programmes. But at the same time Scotland will of course want to set up its own national broadcaster (and eventually seeing the development of commercial alternatives). The physical assets of the BBC currently within Scotland are likely to play a substantial role in the debt and assets separation negotiations but it is likely that ownership of assets, both mobile and non-mobile, currently within Scotland would be transferred to Scotland and that these would form the basis of a Scottish Broadcasting Service (SBS). Scotland would then want to secure ongoing access to BBC programming through a licensing agreement.

To understand how this might work, the model used by Ireland could be considered. Ireland's state broadcaster, RTÉ, maintains an arrangement whereby a variety of popular shows are licensed from BBC Worldwide and rebroadcast throughout Ireland (reciprocally, RTÉ programming is available within Northern Ireland). The precise details of this arrangement are considered commercially sensitive thus are not in the public domain but RTÉ's annual accounts do allow for an annual expenditure of around £24 million on the purchase of overseas programming (a sum which also covers purchase of American, European and other overseas programming). It would be reasonable, therefore, to assume that the BBC would be amenable to a similar reciprocal deal with SBS which would allow viewers in the rest of the UK to continue watching Scottish programming and vice versa.

It should be noted, however, that the technology and methods of consumption of media are changing rapidly. Linear viewing (i.e. via traditional broadcast schedules) is still popular for time sensitive programming such as news, live sports and live music broadcast as well as for social reasons such as avoidance of 'spoilers' in TV series and to facilitate the social experience of people discussing and debating programmes. More and more frequently, however, viewers – especially younger viewers – are watching media in a non-linear fashion via catch-up, on-demand and other services such as the BBC iPlayer, Netflix and Amazon Prime.

The iPlayer in particular is available in countries outside of the UK but is so only on an individual subscription base (roughly the equivalent of £5 per month) and operates in a different capacity from the iPlayer available within the UK, being focused on providing an on-demand selection of shows curated by BBC Worldwide rather than a comprehensive live and catch-up service. As of 2017, BBC iPlayer began rolling out a registration system to users which includes a request for a postal address for the purposes of identifying a users location. This information is now used to block viewers from outside rUK from using the iPlayer so it is likely that an independent SBS would have to seek an arrangement with the BBC to maintain this service.

The full breadth of discussion over the role and scope of a Scottish Broadcasting Service is one which should consider the role that popular services such as the BBC will continue to have in an independent Scotland. Whilst the scope of SBS should in no way be limited in its ambition to merely seeking to replicate and replace the BBC, it is without question that many in Scotland will wish to continue to receive the service. Given the variety of methods of media consumption now possible and the commercial incentives on both sides (the funding shortfall the BBC would find itself in after Scottish independence would make a new income stream attractive), it seems likely that a reciprocal deal at least as comprehensive as that enjoyed by Ireland would be possible to negotiate. Any kind of sharing deal cannot be agreed or probably even negotiated until after Scotland votes for independence so it will be for the National Commission to negotiate an outcome which maintains the maximum access to BBC programming for Scottish viewers.

Attention would then turn to setting up the SBS. Scotland might well wish to follow something like the UK model of a mandatory licence fee. There are alternative options such as a mandatory household tax regardless of TV ownership or direct state funding from the Scottish Treasury. However, as we have seen the main way that governments pressurise the BBC over its news approach and overall content is through threats to its funding. If a Scottish Finance Minister were able to 'threaten' the SBS on an annual basis through general budget-setting, it would be likely to have a seriously negative effect on the independence of the broadcaster. There is therefore much about the license fee which is attractive in this context, although it is a regressive charge because it is flat rate and paid irrespective of income.

At the moment the license fee in Scotland raises about £320 million. The total spend in Scotland is about £103 million, although OfCom attributes about £73 million of additional expenditure to Scotland for non-direct expenditure, meaning a total of about £176 million is spent in Scotland. This means that, as a starting point and if no additional income were to be generated over and above the license fee, an SBS would be able to sustain the Scottish programming which is already produced (including all the television news and current affairs from Scotland) and have at least an extra £144 million to spend on programme-making.

While an SBS would absolutely not want to drop the quality of programme making in comparison to the BBC, nevertheless it would be hoped that an SBS would manage to avoid the inordinately large salaries paid by the BBC and so would be able to produce high-quality programming on a more efficient basis than does the BBC. Even allowing (following the Irish model) about £24 million for the purchase of overseas programming (and this number might be a bit higher if Scotland wanted enhanced or close to full access to existing BBC programming), it would mean an extra £120 million for new Scottish programming. It is important to be aware that this is not as generous a sum as it might sound. The following are some indicative prices for how much it costs to produce an hour of TV: comedy about

£50,000 to £500,000; daytime entertainment TV £20,000 to £100,000; primetime entertainment £150,000 to £500,000; drama £100,000 to £1 million; factual anything from £10,000 to £400,000; children £50,000 to £500,000. This means that £120 million could produce say 120 hours of really premium drama series – but nothing else. Or a thousand hours of mid-range comedy, entertainment and factual. Or many other combinations.

Which is to say that it would be perfectly possible to produce a competent, continuous public broadcaster in Scotland on a ring-fenced license fee at about its current level (while also retaining access to much BBC programming). But if Scotland aspired to produce the kind of global-selling documentaries and entertainment programmes the BBC produces (such as its world-leading wildlife documentaries) or that Nordic countries have managed in recent years (their globally-successful crime dramas), this would need additional sources of funding (although these can also be income-generating if they can be sold internationally).

There is a strong case for linking the SBS to a national film and TV strategy funded through Creative Scotland (or whatever arts agency exists in post-independence Scotland) which would work with the SBS to commission and pay for original content which is designed and produced particularly for wider distribution (such as an initial cinema release followed by broadcast). Close working with Scotland's universities (a number of which have television and film production courses and facilities) and with a particular focus on the opportunities of international co-production, it should be possible to substantially enhance what the license fee funded aspect would enable. The question of licensing sports programmes would also have to be considered, but these require detailed negotiations with rights-holders.

There will be just about as many views on what an SBS should be like (what it should commission, what it should show) as there are viewers. Here more than anywhere else, success relies on quality and quality relies on the people appointed to make, produce and schedule programmes. Setting up the structure for an initial public broadcaster should be another task for the National Commission, with a particular focus on consulting very widely on important questions about the 'personality' and mission of a public broadcaster.

In particular, it would be wise to consider the direction of travel of television in the future – how much will be scheduled programming delivered over the radio spectrum (terrestrial TV), how much will be live-streamed over broadband and how much will be watched as video-on-demand over broadband? It is quite possible to imagine a future in which broadband speeds are so substantial and so universally available that the need to broadcast television on the radio spectrum will disappear. It is also likely that the trend towards 'on demand watching' will increase continuously. These are opportunities to design a broadcasting service now which is ready to begin as a national broadcaster from independence day onwards but which is ready rapidly to adapt to what comes next in the world of television.

This leaves two remaining areas in the field of communications; the postal service and telecoms. Both these issues have become easier to deal with during the process of achieving Scottish independence – but not for good reasons. In both cases the services have been entirely privatised and so the relationship between the emerging Scottish state and the service providers is purely a contractual, licensing and regulatory relationship. It is to be assumed that the existing providers (Royal Mail Ltd and the various phone and broadband operators) will seek to continue their profitable exposure to the Scottish market – but they are easy to replace with other private contractors if for any reason they weren't. The Royal Mail and Post Offices Ltd were separated and operate as independent businesses (with woeful under-investment in Post Offices in particular). It should be straightforward to continue to receive services from both as currently. The only question is the contractual negotiations. Scotland has a more disparate population than the rest of the UK and so the cost of universal deliveries may arguably be a bit higher. This may result in some additional subsidy from the Scottish Government to maintain a universal service, but this need not be particularly high and could only be resolved through commercial negotiations.

However, there is a very strong case indeed for Scotland to begin to plan to end this system. A majority of the public consider postal and telecoms services to be a core public infrastructure without which communities would simply be unable to sustain themselves. There is therefore a case for these services to be designated (potentially in the constitution) as core public infrastructure that must be protected from monopoly control. This in effect means the renationalisation of post and potentially also parts of the telecom industry (and in particular broadband, where Scotland is particularly ill-served). However, while it is likely these discussions would take place during the transition period towards independence, it is unlikely that a specific model of nationalisation could be agreed and given a political mandate in time to design and implement a system in time for the first day of Scottish independence. Hence it is likely that continuing with the existing contractual arrangements is the pragmatic response.

But there must be a strong caveat to that; no decision taken during the transition process should tie the hands of the first incoming Scottish Government after independence. Any contractual agreement should therefore be limited to a term which would create a realistic timeframe over which a decision to renationalise and then to enact that plan could be delivered without hinderance from excessively long contractual obligations signed without full democratic mandate. In these areas, the total transition period will stretch out longer than the three-year transition period between an independence vote and independence day.

A very brief mention should be made here of regulatory law around communications issues. Below the wider issue of regulatory compliance with the EU will be considered in more detail, but the regulation of electronic communications is important. The UK currently has the Privacy and Electronic Communications Regulations which result from a European Directive. These provide a variety of privacy rights for individuals over issues such as marketing calls, emails and texts, cookies, security of data and customer privacy. If Scotland wanted to apply to join the EU after independence it would need to be compliant with this directive. But, in any case, these are vital protections which should be in place in Scotland and transferring these into Scottish law will be important (along with a range of other regulatory issues such as data protection).

Finally, a brief mention of social media. At this point it is probably best just to indicate that the global debate on the appropriate regulation of social media is fierce and the desire to place a much more powerful regulatory framework on social media is growing. It is likely that international practice will have moved forward by the time Scotland is achieving independence and so the form of that regulation will probably be different at that time. Whatever the situation, Scotland should be clear that protecting users of social media is another priority, and this will probably require both legislation and potentially and extension of a Scottish Ofcom's remit to monitor and police social media.

With this in place, core communications and a free and independent media would be ensured in an independent Scotland.

Powering the new nation

As well as communications infrastructure like post and telecoms, energy is one of the utilities which would be universally identified as essential to modern life – so it is important that the management of Scotland's energy grid is transferred seamlessly to Scotland's government upon independence. Once again, there are two aspects to this – the technical requirements necessary to ensure that the energy system can be managed, monitored and maintained and the policy approaches to the energy system Scotland will want to take. And again the aim here is to identify how to achieve the former while leaving open the maximum flexibility for a future Scottish Government to change the latter as it sees fit.

The UK energy system is largely privatised, both in generation and supply. And as always, since Scottish customers provide a profit just like other customers in the UK, securing the existing provision will not be difficult. So to put in place the technical ability for Scotland to run its own independent energy system will require three things; a Department for Energy, a publicly-owner Scottish Transmissions Operator and an Independent Energy Regulator. The Department for Energy will be part of the civil service and it will be the policy-developing body, pursuing 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 probably 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.

But there are other issues which are likely to influence the design of an energy system. An energy policy would be integrated 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 – for example aluminium smelting. A government may well want to ensure 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. Scotland might not wish to continue the policy that sees government guaranteeing a price for generators which is then added on to energy bills but rather accept that some infrastructure investment should come from general taxation, thus lowering energy bills.

It is almost certain that Scotland would want to prioritise renewable energy sources in its grid and move away from fossil fuel use. Scotland might want to encourage the development of more energy cooperatives and local energy companies to socialise the value of energy generation in their area. It is likely that Scotland would want to fund major energy projects through a Scottish Investment Bank rather than foreign investors who export profits. It could very well seek to bring the grid into public ownership and it might well rethink the concept of the UK electricity market, questioning whether it 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 such as power failures or severe weather. And given that it looks like there may well be a publicly-owned electricity supply company in Scotland in the near future this opens up the opportunity for Scotland to build on it and create an equivalent of Denmark's State Energy Company which is integrated with the Department of Energy and has a wide remit which ranges from generating, distributing and supplying electricity to setting long-term strategy and policy.

Depending on the timing of a transition to Scottish independence it may be that there is a greater or lesser pressure to develop a medium-term (perhaps ten-year) strategy for Scottish energy security. There may well be merit in the National Commission establishing 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 key technical part of an energy system is the Transmission System Operator (TSO). A TSO is an entity entrusted with transporting energy in the form of natural gas or electrical power on a national or regional level through the existing grid system. It's primary purpose is to ensure continuity and responsiveness of supply to ensure energy security. It manages the volume of electricity and gas through the grid to match fluctuations in demand so that people do not lose energy supply when there are moments of peak demand or at times of the year when much more energy is used. It monitors the entire grid system and its use patterns and adjusts the amount of energy being sent round the grid when there is more public demand.

A national gas or electricity grid is an extremely costly piece of infrastructure to put in place and it is simply not going to be done twice. Given that grid power is essential to modern life and the cost of creating one is so substantial, the national grid is perhaps the case study of a natural public monopoly. For this reason virtually every country has a TSO which is publicly owned such that the grid is operated as a public utility solely in the public interest. The UK is alone in Europe in having a private TSO - National Grid Electricity Transmission PLC. This is slightly complicated because that company also owns the grid infrastructure in England and Wales but in Scotland those are owned by Scottish Power Transmission and Scottish Hydro Electric Transmission. However, those are Transmission Operators and not Transmission System Operators so they own the grid infrastructure but it is managed by the national TSO. It makes absolutely no sense whatsoever for Scotland to duplicate this model and so a Scottish TSO should be created which is wholly publicly owned and managed.

That Scottish Transmission Systems Operator will take over the responsibility for Scotland's national grid. Initially it shall not take ownership of transmission assets (such as the cables and pylons and transformers) but shall manage supply, set policy and development plans for the grid, contracting existing energy companies for maintenance and operation. This function is currently too closely tied to the ownership of the grid which creates a conflict of interest (the grid owner has an incentive to put in place more cabling which makes it a profit so to have the demand for this driven by the same company is a conflict of interest). For this reason the UK is already disentangling this structure. So the ownership of the grid and the management and advice on the development of the grid would be separated. The assets remain with the grid owner and so there would be little or no requirement for compensation if the TSO role was taken into the public domain. 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. That facility should be based on latest technological development such as the 'internet of things' which means much greater amounts of information on power usage and availability. This enables power usage to be more evenly distributed over a 24 hour cycle, reducing peak load, the associated volume of power generation and so making faster returns on public investment. Setting up an STSO and control centre will require the recruitment of expert advice should 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 final part of an energy system for Scotland would be a Scottish Energy Regulator which would be a watchdog 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. This would be a replacement for Ofgem and, like Ofgem, it will be funded through a levy on companies. It would work with the Department of Energy to make sure that public policy is being followed and that consumers are being protected from potential exploitation by energy suppliers. The infrastructure needed to create these three organisations is already there (though energy infrastructure is being continuously updated) and so the process of creating them is primarily about the recruitment of personnel with the requisite knowledge and skills.

This is one half of the answer to the questions of 'how to keep the lights on'. First, put in place solid infrastructure capable of reliably managing and developing what is there, and this is the only element which is needed during the three-year transition phase. But given the political sensitivities of that fear of 'the lights going out' it is worth a very short note on how to begin to manage the second part of the answer to the question – long term planning. As has just been suggested, it may be worth the National Commission organising a policy forum on this so that when a first Scottish Government is elected in an independent Scotland there is already a road map available on the medium-term strategic approach to energy security and how Scotland would relate to the rest of the rUK grid.

Scotland (for the foreseeable future) will continue to be a net electricity exporter and any doubts about whether this would be likely to continue after independence have largely been removed due to the reduction in cost (through greater efficiency and as capital costs are gradually repaid). And since electricity generation in rUK will be increasingly dominated by centralised nuclear generation which has a high guaranteed market price, Scottish renewable electricity will become increasingly competitive in UK markets. There are some residual elements of UK policy which will need to be negotiated during the transition to independence. For example, it is successive UK Governments which have signed deals with energy generators to guarantee subsidies well into the future (the total commitment across the UK may be as much as £9 billion annually by 2030 and Scotland makes up about 25 per cent of the generation capacity).

It is therefore a commitment which in theory the UK Government should need to continue to pay, but since much of the subsidised energy will be for Scottish consumption this will be a subject for negotiation and probably compromise (although many of these subsidies are actually disguised in higher power bills to customers rather than as a cost to government). It should be noted that by 2030 the capital costs of much of Scotland's renewable energy infrastructure will have been paid off so this form of electricity will be generated at virtually no cost for ten years after that, reducing electricity bills.

The wider question of keeping the lights on in the long term is not one there is scope to discuss here, other than to say that at the moment Scotland is currently and comfortably a net exporter of electricity and the rate at which non-renewable power is going to be decommissioned (particularly Hunterston B's life coming to an end) is currently slower than the rate at which renewable energy supply is increasing. There is therefore every reason to believe that Scotland can be confident about energy security for the medium term and, given the infrastructure and capacity discussed in this chapter, will be in a strong position to develop a strategy for the development of local smart grids with substantial energy storage capacity and a disaggregated generation model once Scotland is independent.

Where Scotland meets the world

So far this book has focussed mainly on infrastructure and policies that have to be put in place to enable Scotland to function internally as an autonomous nation state – but there are no entirely autonomous nation states. All are involved in all kinds of relationships with other states, such as the defence collaborations discussed earlier, or the likelihood of some kind of cross-border sharing in a number of areas which have been raised at various points. But perhaps the biggest relationships between nations are trade and the movement of people.

International trade is, very simply, the exchange of capital, goods and services across international borders or territories. The movement of people can be for leisure (such as tourism), for business purposes, for work (where people take up a job in a country other than their country of birth), as migration (where people for whatever reason decide to seek to make a home in another country) or in the form of refugees or asylum-seekers. These relationships are regulated via customs and immigration policy. Customs will include the monitoring of regulatory compliance (that goods entering the territory meet the regulatory standards of that territory), monitoring of quotas (where there are set quotas for the volume of goods being imported) and the imposition of duties, tariffs and taxes. Customs is usually considered as a separate function than immigration (which is the regulation of the flow of people entering a territory).

An 'autonomous customs territory' is a territory with legal personality (the right to enter into contract and agreement with other international bodies) which is capable of operating a customs policy of its own choosing. If Scotland becomes independent it would automatically become an autonomous customs territory in that it would now have power over all its customs policies. However, that does not mean that Scotland has to become a distinct customs territory operating its own policies. It may chose to do that, but it may also chose to enter into a multinational customs union. That is an agreement between a number of territories to harmonise regulation, tariffs, quotas and all other aspects of customs policy. The borders between territories (generally nation states) in a customs union are not customs borders and the flow of goods across these borders is not regulated. All the nations in a customs union share a customs border between them and all other legal territories. The European Union Customs Union (EUCU) is the customs union that the UK has been part of. It includes all EU members but also includes a number of non-EU territories. This creates a customs border around the entire EU (and the other EUCU territories) which acts as a single border to the rest of the world.

However, there are a number of complications which make a proper understanding of the relationship between customs and single market somewhat confusing for many people. For example, EFTA members are not in the 'single market', but EEA members are, though EEA members are not in the EUCU. The EU internal single market is the regulation of trade within the EU – that is, trade between states which are members of the single market. Being a member of the single market means that there will be regulatory, legal and tariff alignment such that there is no barrier to the movement of goods, services or people between these borders. However, that need not bind members to then treat non-single market states in a consistent way – you can be in the single market but choose to levy higher tariffs on imports from other countries than do other members of the single market. Only those who are also members of the EUCU have agreed to align fully their customs treatment of non-single market territories.

There is a final complication in all of this which is that the EU heavily subsidises agriculture and fishing and it does so in a very specific way for very specific strategic reasons. As the single market more or less excludes the potential for any other kinds of subsidy, the internal market does not treat EU agricultural and fishing trade in quite the same way as other internal trade. Effectively, because of these subsidies the internal trade in these goods is regulated by the Customs Union and not the single market. Thus Norway is in the internal single market but not the EUCU which means that all goods, services and labour are allowed to move freely between the rest of the EEA and Norway – with the exception of agriculture and fishing goods to which Norway can (and does) impose an additional tariff. Norway is then free to negotiate its own customs laws if it wishes to, though these are also agreed through EFTA collectively for EFTA members.

If you find all of this complicated, don't worry – you're not alone. Trade issues will be discussed further in the next chapter but it is important to understand these basics to understand the customs issues Scotland would face after independence. Basically, a customs border is necessary when goods or services seek to cross that border which either do not harmonise with the regulatory framework of the country they are entering or are subject to tariffs and taxes because they are not in a customs union which has harmonised these. Thus if (at the time of writing) you fly to the UK, at the airport you will discover two customs borders – one if your journey originated from within the EEA (in which case any goods you have brought back with you are already regulatorily compliant and have already been subject to any customs tariffs due) and another if your journey originated outside the EEA in which case any goods and services you bring back may be subject to inspection to make sure that they are regulatorily compliant (you will not be permitted to bring them into the country if they are not) and you may be charged any customs duties, tariffs or taxes which are due.

This means that at the moment there is a customs border around the UK but there is no customs border inside the UK. Immigration is very similar – but without the equivalent of the EUCU to create a harmonised EU-wide approach to immigration. Thus a citizen of the EU can travel across any EU borders without the need for immigration checks but a non-EU citizen arriving at any EU border will be subject to the immigration policies not of the EU as a whole but of the specific nation state whose border is being crossed.

At this point it is necessary to address the question of 'hard' and 'soft' borders. The first thing to be clear about is that these are not technical terms but purely political ones. There is no definition of a 'hard' border, just like there is no definition of a 'soft' border. In fact, all borders have elements of 'softness' and 'hardness' – the border around even the most fully integrated EU state will feel pretty 'hard' to you if you are not a citizen of the EU. So the terms are really political ones which are used to describe the degree of 'friction' felt at a border – how hard it is to cross, how many regulations must be checked at the border and so on. In fact, the vast bulk of the political drive in Britain has been to make borders harder – certainly to non-EU citizens but to EU citizens as well. The controversial factor in the case of Scottish independence is both the fact that there would be a new border and the fact that there would be degrees of how hard or soft that border would be. It would be very nice if, prior to a referendum on Scottish independence, this issue could be comprehensively resolved. Unfortunately, supporters of independence must understand that it can't, or at least that it probably can't.

The reason for this is that the hardness or otherwise of the border will really be decided not so much by Scotland as by the rUK. There are three things that would trigger the need for a 'harder' border – variance in regulatory frameworks, variance in customs and duties policies and variance in immigration policy. The greater the degree of variance there is in these policies between Scotland and rUK, the 'harder' the border. But almost any variation in these policies will require some kind of monitoring of cross-border traffic, not least because if Scotland maintains any form of relationship with the EU it would be required by EU law to regulate cross-border traffic (assuming rUK does not maintain that relationship post-Brexit).

If Scotland is in any form of regulatory compliance with Europe – such as EEA membership or full membership of the EU – then it is obliged to act as a border to that internal single market. If the EU decides that it is going to ban certain pesticides on all its crops but the rUK outside the EEA does not follow suit, none of those crops or any of the products made with those crops would be allowed to cross the Scottish border because they would not be legal inside the EEA. Therefore the greater the UK diverges from the regulatory framework of the EEA, the more stringent border checks with Scotland would need to be.

At the time of writing it is still in theory possible that the UK will remain inside the EEA or be regulatorily compliant with the EEA for at least an extended transition period. This is currently being presented as the solution to the 'Irish border question' (which is almost identical in nature to the issues Scotland would face). If that became a long-term solution, the Scotland-England border would be very soft indeed. However, it is difficult to see how this would be compatible with the current political mood in the UK since it would mean maintaining current positions on accepting EU trade laws and immigration policy – which is what is behind much of the drive to Brexit in the first place.

On the other hand, there is now pressure towards a 'big business' Brexit which would wish to minimise trade problems caused by regulatory drift and since the UK appears to have accepted the free movement of data it seems the UK will be at least partly subject to European Court of Justice rulings. At the moment it is impossible to say anything certain about this issue, but the best guess position has to be that the rUK will quite quickly not be absolutely harmonised with the EEA in terms of regulations (although it is more likely that it will be closer on duties and tariffs) and is likely to move away from harmonisation on immigration and freedom of movement issues.

The working position should therefore be that there will be a customs and immigration border between Scotland and rUK – made inevitable because of the UK's decision to separate itself from the European mainstream. The goal is therefore to make the border as 'frictionless' as possible. But this is not all a case of 'harm reduction'; there are some substantial benefits that could come to Scotland as a result.

To understand why, it is worth restating what Customs means. It is the arm of government that is responsible for the control of flow of goods, and for collecting tariffs on those goods. The importance of this work to the revenues of any nation-state is highly significant, as Customs relates directly to all indirect taxes – those which are levied on goods or services rather than income or profits. Most recent figures from the National Audit Office show 39 per cent of all government revenue comes from indirect taxes, the most important being VAT and Excise Duty. In ensuring that movement of goods are conducted legally and are of no danger to the public, Customs officers have to deal with illegal trade such as smuggling and cyber-crime as well as issues like environmental waste from pollutants and disease control from animals. Customs polices issues which should be of great concern to everyone – issues like modern human slavery and people-trafficking, bio-security, illegal trade in endangered species, counterfeit goods, breaches of intellectual property rights, the proceeds of crime, preventing the looting or destruction of wrecks, pollution control, fisheries control, disease control, many kinds of fraud including VAT and Excise fraud and many others. It is also work that impinges on other areas of government which require good intelligence relationships such as the intelligence services, defence, police, environment, agriculture, fisheries and trade and industry. To present customs as some kind of 'bad thing' which we want to minimise under all circumstances is a very ill-conceived way to think of customs and makes no more sense than saying 'crossing the border would be so much easier if there were no police officers to check if I'm driving a dangerous car at 100 miles an hour'.

So is Scotland getting a good customs service from being inside the UK? It is hard to argue that it is. As has been mentioned above, when you land at a UK airport you will have to pass through one of two customs borders according to whether or not your journey originated inside the EU. But have you ever seen any staff at these borders? It is pretty unlikely that you have since 2005 when HM Customs and Excise was amalgamated with Inland Revenue. Since that time, the UK has effectively stopped doing Customs work, and the consequences of that are substantial but not widely understood.

At the time of the amalgamation with HMRC, the United Kingdom Borders Agency (UKBA) was given the 'borders' role in 2005 – but this became largely an immigration service. In 2013 the UKBA was then deemed 'unfit for purpose' and was re-born as the United Kingdom Borders Force (UKBF), which has a 90 per cent focus on immigration. Both of these agencies relegated the traditional Customs role to minor agency tasking. A very small number of UKBF officers are now classified as anti-smugglers but can be directed to immigration work at little notice.

The 2005 merger led many former HM Customs and Excise staff to resign and become Customs consultants worldwide. Their expertise was, and continues to be, highly sought after in nascent self-governing countries seeking to raise, protect and build their own revenues. That same expertise has been lost to Scotland through UK mis-management. These changes may have taken place in the name of 'light-touch regulation' but were really about cost-cutting. The outcome is that a unified system has been fragmented. The overall impact might best be measured in terms of the 'tax gap' – the difference between what should be collected in tax if every person and organisation paid what they owe, and what is actually collected. HMRC's estimate of a £36 billion tax gap has been heavily criticised as a gross under-estimation by the UK Government Public Accounts Committee and tax experts, with others putting the figure at £120 billion. Of this about 40 per cent relates to revenues which are derived from customs and excise including VAT. The problem with VAT is unrecorded sales, an amount in the order of £100 billion a year representing revenue loss in the tens of billions of pounds. This is largely a result of the 'shadow economy' where estimates are that a sixth of cigarettes are smuggled and a seventh of all alcohol.

It is only logical that the UK's approach to Customs would lead to a loss in revenues: if cargo is moved into the UK and there are never (or rarely ever) any checks on where the goods have come from, whether there is a tariff on those goods and so on, it is likely that at least some of those who make their wealth out of this trade will see an opportunity in not registering the goods. Non- compliance is actively facilitated if the possibility of enforcement is low. But who is dealing with, for example, smuggling in the current UK system? UKBF, the Home Office immigration department, where skills in revenue collection are limited. This is not just a problem of catching criminals in the act; law enforcement was only a minor part of what Customs officers would do.

One key element in terms of revenue collection was to ensure that all players involved in the movement of goods were aware of the law, knew their obligations and how to exercise them. Revenue collection is about relationships as much as law enforcement. There is an imbalance here in terms of commitment of resources. One example is the National Crime Agency (NCA), which lists 14 threats the UK faces from organised crime. Of these only three (cyber crime, fraud and organised crime groups) are revenue fraud related - but 20 per cent of UK organised crime is revenue frauds totalling approximately £5 billion. Revenue-based crimes may not make as many headlines, but there is a good justification to say that, if looked at in the round, they have one of the biggest impacts on the public good.

A useful way of illustrating this is to look at Scotland's long coastline which has historically had a number of key smuggling routes, especially between Scotland and Northern Ireland during the Troubles. Currently, there are no Customs cutters (boats for intercepting smugglers) in Scottish waters nor has there been any stationed in Scotland for at least thirty years. Recent drugs and weapons finds in Scotland, and Scottish waters, confirm such ongoing threats to communities whilst providing profits for terrorists and organised crime. HMRC, UKBF and the MoD should have an integrated coastal strategy, recognising the interconnectedness of defence, immigration and revenue issues, but they don't. There are very clear weaknesses. When a ship or aircraft arrives from anywhere other than the EU it should have a full manifest accurately estimating the value and nature of the cargo and this should be inspected by Customs officers. This very rarely happens in Britain. There used to be an excise officer stationed at large distilleries and breweries to ensure full compliance; the traders are now expected to self-report and audits of this are very rare. Another example is the arms trade. British businesses need a license to export arms but without customs officers at ports and airports there is little opportunity to audit exports to make sure they comply. Of 14,000 export licenses in 2015, there was only one prosecution for breach of the license. It seems likely that a proper compliance regime would identify more than this. In all these cases the public interest is not being served by the UK's almost non-existent Customs enforcement regime.

This can be resolved in Scotland if there is independence by setting up a fit-for-purpose Scottish Customs and Excise agency. This should be based on something like the pre-2005 HM Customs and Excise model in the UK which is broadly the same model used by countries like Denmark, Ireland, Iceland, Germany and France.

To get there, Scotland will need a modern, well-resourced Customs Division as part of a beefed up Revenue Scotland, premised on a simple, efficient tax code that eliminates loopholes (as discussed above). It is then worth looking at how the basic functions of a Scottish Customs and Excise Division would operate in a modern context. It is generally accepted that physical borders are not so much diminishing as changing towards 'smart borders', while the border function is both trans-nationalised and internally dispersed. Increasingly the 'border' is considered not as a fixed line on a map but as the place where government performs border functions.

It therefore means that border controls do not need to take place at the 'border'. Uncollected revenues, contraband (such as tobacco, spirits, weapons and drugs) and those which are deemed illegal should be assessed and relevant legal enforcement action taken wherever they are identified, subject to a statute of limitation. For example, France collects 90 per cent of its Customs and taxation through post-clearance Inland controls. It is modern, efficient and way ahead of the UK. To facilitate this, an independent Scotland could re-establish the former HM C&E 'Large Trader Control Units' (LTCUs) where professional expertise could focus and prioritise resources to maximise tax yield. LTCUs are an excellent example of 'post-clearance' controls – Customs controls carried out inland. Similarly, Inland Clearance Depots (ICDs) are an effective method of facilitating international cargo trade – but they exist not at the border but inland. Customs controls can be co-located at road system, airport and rail hubs as part of a co-ordinated modern inter-modal transport system. Trade is facilitated by reducing or eliminating border checks by allowing cargo traffic to move quickly (and so at reduced cost) to ICDs near to their final destination.

It is important to remember that since the closure of Customs offices around Scotland coupled with the closure of Coastguard stations, fishery protection offices, local tax offices, local police stations and military cutbacks, the network of trained officers in the field and the lack of local contacts in the community has been broken. The regular contacts, especially in remote areas, is vital for Scotland's intelligence needs, local trends, smuggled items and general awareness of potential terrorist and criminal exploitation. The necessity of communication and building of trust and networks must be established in order to protect the country, its revenue and its citizens. There is no shortcut to enhancing cyber-intelligence with intelligence gained through direct human contact. An email or Facebook post regarding, for example, drug smuggling is only verified and corroborated by human intelligence on the ground. A picture of the individuals, the vessel and vehicles, coupled with local source information on factors like lifestyle and home movements all complete the picture. They are all vital to obtaining a successful prevention, arrest, or prosecution.

The ability of officers on the ground to deter, discourage and prevent evasion of controls as well as informing and educating the public and businesses on risks, dangers, undermining of trade, security and the effects of revenue and security loss are all of vital importance. The fact that drugs, arms, people and other prohibited goods have and are being smuggled into and out of the country by utilising the vast coastline and islands is evidenced by past seizure and detections by HM C&E – until it was dismantled. It is highly unlikely that smuggling has stopped since. Indeed, organised criminal activity is adept and quick to change and adapt.

This kind of intelligence-gathering requires a substantial physical presence across Scotland. It is proposed that there would be 13 customs and excise offices in Aberdeen, Edinburgh, Glasgow, Shetland and Orkney, Inverness, Oban, Elgin, Ayr, Dumfries, Dundee, Perth, Stornaway and Stranraer. Each would have its own list of specialisms which it would pursue (for example, some specialising in oil and gas, some in whisky, some in port customs and so on). There would be an additional five nationwide divisions such as a Maritime Branch, an Intelligence Branch and an Investigation Branch, as well as an overall HQ.

This would be a substantial expansion of the Customs and Excise capacity in Scotland and would take the total number of officers up to around 820, all of whom would be highly-qualified professionals. And since they each generate increased income they would pay for themselves and in the first instance would be prioritised over other UK civil service priorities when jobs were repatriated to Scotland. The average income is currently about £1676 for every one pound spent on a customs officer. The cost of new equipment and vessels would come out of Proceeds of Crime, a revenue stream which would also greatly increase. Overall it would be conservatively estimated that this would generate an additional number of billions of pounds of revenue for Scotland. Calculating the capital costs of setting up a Customs service is quite a detailed business and involves identifying specific infrastructure needs in specific places - and in turn an audit of what HMRC and other civil service office space which is available in Scotland. Decisions would also need to be made about amount of asset purchase such as how many cutters were required (the cost of each of which would come in at about £5 million). As an estimate, the capital set-up costs might fall in a range from £50 million to £100 million.

This would resolve all of Scotland's borders (which are coastal into maritime waters) other than its one land border with rUK. It is simply not possible to give a definitive answer to the nature of that border because it can only be agreed through negotiation with the UK (or, more specifically, Scotland can do whatever it wants on its side of the border but this would not compel rUK to copy those arrangements). The number of unknowns relevant to this decisions are enormous – each country's relationship to the EEA and EUCU, the relationship to collaborative policing services such as OLAF/FRONTEX and Interpol, to Customs information exchange, to the current EU 'smart borders' initiative and much more.

Every one of these may play some part in shaping the nature of this border. But the main factor returns to the start of this chapter – if Scotland was in the EEA and England was not, a formal border becomes an unavoidable fact. But it would be a simply remarkable and unprecedented display of economic self-harm for the rUK if it chose to impose a Hungarian-style razor wire border. (It should be noted though that even in the Hungarian case they still operate Inland Clearance for trade.) It is perhaps worth stating that the rUK could choose to do this (entirely at their cost) if they wished but it is difficult to conceive of this as a reality.

Norway is an interesting example here. It is in the same single market as two of its neighbours (Sweden and Finland) but not the third (Russia) and is in a different custom territory than all of them. There are customs posts (but not mandatory stops) at every road crossing and free movement of people between those in which it is in a free travel area (Norway, Sweden and Finland are all in Schengen, the European free travel agreement). While there were passport checks at the Russian border there was no fence until recently when some fencing was put in place to combat the problem of mass migration through Russian territory into the EU. This would clearly not apply to a border between Scotland and England. It is to be assumed that rUK will be willing to maintain the UK Common Travel area which consists of Ireland, Northern Ireland, Scotland, England and Wales, Isle of Man, Jersey, Guernsey and Alderney (a number of which are not EU members). This would then form the basis of free, passportless movement between these territories.

Importantly, while the situation between an independent Scotland and rUK (if the UK leaves the EEA) would have its own specific issues, it would not be far from the Norway/Sweden situation. And while there isn't a direct precedent, complex border issues are hardly unprecedented for the EU as a whole. The Aims and Tasks of Association of European Border Regions (AEBR) website reveals tried and tested solutions to a wide range of 'What If?' questions on border matters. It might be thought of as a menu from which solutions can be cherry-picked. The ABER works on behalf of the European border and cross-border regions with the aim of coordinating across Europe to resolve border issues. Complicated border matters are not rare.

If we think about the rUK/Scotland land border, the following might be a likely outcome. There would be customs posts at the border but not immigration checks or passport checks. Automated license plate checking would help to monitor cross-border travel and information-sharing between Scotland and rUK would be available to track down any infringements of migration status (such as someone being in rUK without a legal immigration status who then travelled to Scotland). Small customs checks on a voluntary basis might be done at the border (people taking personal goods across the borders could declare them at the border) while all other customs checks would take place at a designated customs centre as described above. This would feel like a 'frictionless' border to almost every individual who crossed it but with proper customs checks for large imports.

Where the UK is somewhat less under-provided is in the field of immigration control. This is another controversial subject where political opinion in Scotland is sharply different from that in other parts of the UK. This is in part because the areas of the UK which have come under the most pressure from immigration (whether that 'pressure' is real or perceived) tend not to be in Scotland. However, there is an increasingly widespread understanding that Scotland's population needs are such that an immigration strategy geared towards managed migration for the economy means that a positive and encouraging approach to immigration should be the focus rather than the 'hostile environment' model pursued by the UK.

It is certainly the case that there is a fairly broad political consensus that some of the punitive treatment of immigrants and asylum seekers in the UK system is inhumane and should be reformed. However, these are policy matters which can quickly be altered by an incoming government after independence and anything from a points-based system to an advertising campaign to attract economic migrants is perfectly feasible. There will be issues to do with immigration across the Scottish border – the fear that Scotland might allow in immigrants on a more favourable basis and that this might be used as a 'back door' into the UK. However, since Scotland does not have a land border with any country from which mass illegal immigration might result and since it does not even have substantial volumes of ferry transport to the continent, this mode of immigration route is unlikely to be substantial. Nevertheless, it will be important that future immigration changes are made in conversation with the rest of the UK and additional controls may be necessary to ensure that rUK does not feel vulnerable to illegal immigration routes as a result of Scottish immigration policy.

What does not need a major change is the structure and capacity of the existing system, only its mode of operation and the policies which it follows. There is therefore already plenty civil service capacity in Scotland to carry out whatever immigration policy is set by a future government. Either by transferring employment contracts for existing immigration officials to a new Scottish Immigration Service or by recruiting afresh (subject to the right of existing staff to transfer on the same terms and conditions) it should be easy to match and enhance existing capacity within a Scottish agency rapidly. In doing this there will be a lot of interest in ensuring that the punitive culture of the UK system does not transfer to Scotland with the transfer of staff. While in the immediate post-independence period the basic rules for immigration would stay the same (on a status-quo basis) it would be important that these were quickly enacted in a more humane and encouraging manner. It should be hoped that a Scottish Immigration Service can quickly become a service which sees itself as helping legitimate immigrants come to Scotland as quickly and as painlessly as possible – while politely identifying and preventing abuse of the system.

Resolving Scotland's border issues will be one of the more complicated aspects of achieving independence – as we have already seen in relation to the Irish border in the Brexit negotiations. There are two things that must be said about this. The first is that the problems are almost all created by the UK's increasingly isolationist stance in Europe; it will not be an independent Scotland which is out of step but the post-Brexit UK. The second is that, whatever negotiating postures are taken, just like the Irish border issue it is in everyone's interests to resolve this issue in the most open and 'frictionless' way possible. Once the political rhetoric about 'impossibility' is expended it will be perfectly possible to achieve an outcome which works for both Scotland and rUK. We should not, however, underestimate how much work will be required to get there.

Looking outwards to the world

Clearly, an independent Scotland's interests will stretch well beyond our own borders. Scotland will want to play a positive and constructive role in the world. It will want to ensure the best possible conditions for its citizens to travel around the world. It will want to have positive relationship with many other nations. It will want to join with other nations in many transnational agreements and treaties towards creating a better world. And of course it will want to trade with nations and businesses around the world. None of these are activities where anyone is going to want any form of 'hiatus' while Scottish independence is achieved. It is therefore essential that one of the primary tasks of the National Commission would be to begin early to establish the structures Scotland will need for engaging with the wider world and to ensure that continuity is maintained for individuals and businesses. There are quite a lot of individual tasks involved in achieving this.

The first is to begin the process of establishing Scotland as a recognised nation state in international politics. The first part of this process was discussed at the very beginning of this book – achieving international legal personality. To reiterate, this is not the same thing as being a fully independent nation. At the moment a number of the UK's 'Crown Dependencies' (such as the Isle of Man and Jersey) are not independent nation states but do have international legal personality and so are able to engage in international negotiations and sign up to international commitments. Being granted this early for Scotland would not prejudice final negotiations over independence but would enable Scotland to begin to build the structures and relationships which would ensure continuity of international relations for citizens and businesses.

Scotland should then begin immediate negotiations with the United Nations for membership which involves a four-stage process. First, Scotland would submit an application to the Secretary-General and a letter formally stating that it accepts the obligations under the UN Charter. Then the Security Council considers the application. Any recommendation for admission must receive the affirmative votes of nine of the 15 members of the Council, provided that none of its five permanent members — China, France, Russia, the UK and the US — have voted against the application. If the Council recommends admission, the recommendation is presented to the General Assembly for consideration. A two-thirds majority vote is necessary in the Assembly for admission of a new State. Membership becomes effective the date the resolution for admission is adopted. Although it is unlikely that this process could be completed prior to the UK recognising Scotland as an independent nation state, there is no reason (subject to UK agreement) that this process could not begin immediately.

As the UK is likely to have left the EU by the time of a vote for Scottish independence, the UK will have reverted to being an autonomous customs territory. Scotland should therefore immediately seek its own autonomous customs area status. Along with international legal personality, this will enable Scotland to enter into negotiations with a range of trade and other international organisations. This does not prejudice Scotland's eventual customs position; to be able to run a fully independent customs policy autonomous customs area status is needed, but it is also needed if Scotland wants to sign up to any form of customs union such as the EUCU.

The next stage in normalising Scotland's international position involves beginning to consider Scotland's exact relationship with the European Union. There are a range of options and clearly this has proved to be a controversial and divisive issue across the UK. While Scotland has a much stronger majority in favour of EU membership, it is important to be aware that this is still only at the level of 'two out of three' members of the public and that decision was taken as part of the UK. It is not wrong to believe that Scotland has a clear mandate to keep the UK in the EU and it is not unfair to infer that this would translate to a majority in favour of an independent Scotland being an EU member.

Nor is it wrong to predict that this is the likely destination for an independent Scotland from where we stand now. But there are a number of factors which should be taken into consideration. One is that there is a range of options which would be politically open to Scotland which were not politically open during the Brexit decision such as single market membership without full EU membership. There is also a potential difference in the terms in which Scotland would enter and it is possible that this might alter people's opinions. Equally, applying to join from 'outside' the EU may look different to people than agreeing to stay in. But at least for independence supports there is also the issue of a fairly small but not insignificant proportion of the Scottish population which supports independence but not EU membership and conflating a vote for independence with a vote for the EU may be strategically and potentially democratically more difficult.

However, there is a route towards EU membership which could be started immediately and which would not prejudice a final decision on EU membership but would in fact enable it. This is all a complex and controversial political matter – there are strong views on both sides of the argument. However, there is a potential solution to this. As has already been pointed out above, it would be procedurally and democratically necessary for the people of Scotland to approve a new constitution formally at the ballot box. It has been suggested that this happen shortly before the scheduled date of independence, nearly three years after the independence referendum. Since this vote will need to take place anyway, it may be a useful vehicle for resolving a couple of controversial political issues at the same time. One of these might be the status of the head of state (and whether an independent Scotland wanted to maintain the monarchy) and another might be whether Scotland should immediately begin negotiations to fully join the EU. This would enable the vote on Scottish independence to be solely about the constitutional status of Scotland with its relationship to Europe being confirmed in a later referendum.

If this solution was adopted there would then be a series of steps which would get Scotland ready for application to join the EU. The first of these would be to join EFTA. EFTA is the European Free Trade Association. It is an intergovernmental organisation which promotes and negotiates issues of free trade and economic integration on behalf of its member states. It currently has four members (Iceland, Liechtenstein, Norway and Switzerland) and 27 bilateral free trade agreements (covering 38 countries) to which all members have access. EFTA members are not automatically members of the EEA (the European single market) but have the right to apply for EEA membership through the EEA agreement. Three of the four EFTA members are members of the EEA.

Membership of EFTA requires only the agreement of its governing council and does not require ratification of that decision by individual member states. The main criterion for entry is that any accession state is ready and willing to sign up to the preexisting trade deals. On the presumption that Scotland would join EFTA comparatively soon after having left the EU (as part of the UK) and that in the intervening period there has been no very major regulatory change at the UK level, Scotland would easily be able to accept EFTA trade deals. There may require to be some negotiation with some of the other nations involved in the bilateral deals but the size of Scotland's economy and its close alignment with the economies of existing EFTA members means there is unlikely to be major problems. Once Scotland has achieved legal personality the process of joining EFTA would be expected to be routine, taking perhaps only a few weeks or months. By that stage Scotland would have some solid international relations and a series of trade deals. However, it would not yet be a member of the EEA and therefore at that stage Scotland would not have automatic access to the single market.

If a staged process towards possible future EU membership was followed, the next stage would be to gain membership to the EEA. The

European Economic Area Agreement was brought into force in 1994 to bind all signatories to the agreement into a single European market with free movement of goods, services, people and capital. Membership of the EEA can be applied for by members of the European Union and of EFTA (it is mandatory for members of the EU to be members of the EEA but it is optional for EFTA members). EEA members must adopt most of the EU legislation and regulation relating to the single market but not those relating to agriculture and fisheries. The EEA is not a customs union (members of the EEA not in membership of the EU have separate customs arrangements) and is not a political union – none of the EU's other policy areas such as foreign affairs or security apply to non-EU EEA members. Non-EU EEA members do not have voting rights over internal market policy or regulation but are included as part of the EU's 'decision-shaping' processes which enable those member states to influence and contribute to new EEA policy and legislation from an early stage (though many would suggest that EEA members have negligible influence and point to a democratic deficit).

At the time of writing, Scotland is a member of the EEA through the UK's membership. This means that Scotland's laws and regulations are fully harmonised with the single market criteria. That would make applying for membership of the EEA as an independent country straightforward in terms of harmonisation (with the exception of regulatory agencies as discussed below). However, it is important to note that the longer Scotland is outside the EEA as a member of a post-Brexit UK, the greater the likelihood of 'regulatory drift' – that UK laws and regulations would gradually (or even suddenly) begin to diverge from EU laws and regulations.

If that happens Scotland would then need to 're-harmonise' those laws and regulations to be able to join. At the moment there seems to be a general agreement from the UK Government that there would be only minimal divergence of laws between the UK and the EU for quite a few years post-Brexit. However, there is no guarantee of the direction or rate of travel and so there is a strong case for a rapid application to join the EEA if Scotland became independent.

The process would involve a formal application which would then be assessed by the European Commission to establish that sufficient harmonisation is in place to enable membership. Scotland's accession to the EEA would then need to be ratified by all existing EEA members. While this clearly might take a while to achieve, there appears to be a route for faster membership. Subject to the Commission assessing Scotland as eligible for membership, Scotland can be granted provisional membership of the EEA straight away, subject to final ratification. In theory this means that Scotland could have full single market access in a matter of months from application while it awaits final ratification. It is worth noting however that no nation has joined the EEA alone (as opposed to through full EU membership) since

1995. It is possible to make a number of guesses about how the EU will view an independent Scotland and whether it is minded to encourage fast accession by Scotland or whether it is minded to frustrate it. There is no way to know for sure how the EU would respond until negotiations begin. However, it seems difficult to believe that the EU would not wish to bring much of the northern territorial waters surrounding its crucial economic area into the EEA so it is not unreasonable to assume that the politics will enable this.

The primary barrier to very rapid accession for Scotland would be achieving full regulatory harmonisation. This is not the place to go into the complexity of regulatory harmonisation but only to make clear that there are a range of ways in which Scotland would need to be compliant. First it must ensure that EU laws are in place whether these are directly-implemented regulations or directives which require EEA members to implement those laws into domestic legislation. But there must also be a number of National Regulatory Authorities in place as well. These are public authorities or government agencies responsible for supervising commercial (and other) activity to ensure that it meets legal regulatory requirements.

An independent regulatory agency is independent from other branches of government. There are a list of NRAs which are mandatory for entry to the EEA – however, these may be shared agencies which have jurisdiction over more than one legal territory. This causes some complications for Scotland. Scotland has some of the required NRAs in place at a national level (such as SEPA, an environmental regulator, and the Scottish Medicine Consortium) but others are retained at a UK level (such as Ofcom, the Financial Services Authority or the Food Standards Agency) while others again are either wholly or partly EU-wide (such as the European Medicines Agency). To be EEA compliant Scotland would need to replace agencies currently shared at a UK-wide level (which would no longer be enforcing European legislation) or find alternative sharing options. Some of this would need to happen anyway (as in the case of Ofcom discussed above) but it would be for the National Commission to assess what agencies require to be put in place and to take steps to make that happen. This is not a routine process and would involve a substantial amount of work, primarily in recruiting experienced regulators to these agencies.

It is important to note that the EEA is not a customs territory. All full EU members are also members of the EUCU, but EEA members need not be (as is the case with Norway). There are many arguments to be had over the merits or otherwise of joining the Customs Union. The ‘strength in numbers’ and ‘economies of scale’ arguments make a case for joining. However, there are two potential arguments against. If Scotland is a member of the Customs Union all customs relationships with rUK would then be negotiated between the rUK and the EU. While it is possible to negotiate some special bilateral arrangements while inside the Customs Union (for example, some territories of member states are exempt as is the case with Gibraltar), these are not the norm. This might make it substantially more difficult to negotiate some issues in relation to the land border between Scotland and rUK. It is also the case that being outside the Customs Union would mean Scotland could take a different policy position on fishing and agriculture. Because the EU allows extensive subsidy of these industries they are outside the single market agreement but inside the EUCU agreement which means Scotland could not impose tariffs on heavily subsidised European food imports in an attempt to support the Scottish food and fishing industries. And of course there are also advantages to EUCU membership, such as that the EU would then provide full support to Scotland in any future trade dispute with the UK. However, these are political choices and could be resolved as part of the phased process.

The ability to create a bilateral trade deal with rUK to overcome some borders customs issues may be attractive but is not without complexities, once again stemming from Brexit. For example, if the rUK was importing goods into the Scottish economy which met the terms of a bilateral agreement between Scotland and rUK but which did not meet the terms of the European Customs Union, those goods could not become any part of a supply chain which was then exported into the EUCU (and certainly there would be 'final destination' issues to ensure that Scotland wasn't being used to import non-compliant goods and services into the EUCU). However, this is an inevitable impact of Brexit – assuming that rUK leaves the single market and the EUCU there will simply be a rapidly expanding list of customs and regulatory complexities because of more complex customs relationships.

This has been explored to some extent in the discussion of customs above but should not be underestimated in terms of complexity or difficultly. However, once again it should be understood as a problem for rUK more than for Scotland. If rUK is not able to export into the single market on 'frictionless' terms because of regulatory drift, it will impact on the rUK economy. It would mean Scottish manufacturers may well seek to source its supply chain from outside the UK (with countries which are inside the EEA) or seek deals with companies which are able to demonstrate compliance in their own production process. None of this is straightforward – but then neither is staying in a UK which is facing these problems in bucketloads during Brexit.

The next decision is one which again may require decisions on whether fast EU accession is sought or whether a more gradual process is adopted (and also on an assessment of how quickly the EU accession process could be achieved). It involves the World Trade Organisation (WTO). The WTO is an intergovernmental organisation that regulates international trade. It deals with regulation of trade between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. The WTO is based on a system of binding and enforceable commitments on quotas and tariffs which each member state agrees through negotiation. The system is based on principles of non-discrimination and reciprocity but is backed with a dispute resolution system when a trading partner or member state feels commitments or principles have not been met by another.

Any state or customs territory having full autonomy in the conduct of its trade policies can apply to become a member of the WTO (which is known as 'acceding to', achieved through an accession process). The applicant then must go through a series of negotiations until all parties are happy with the negotiated terms. This is done in four stages – but this is where the decision comes in, because if Scotland became a full member of the EU it would fall under the EU's membership terms (the EU agrees all of its tariffs and quotas collectively). This would not mean that Scotland did not have to do some of the technical work involved in the accession process – it would need to inform the EU of its own economic priorities which the EU would then need to negotiate internally before then negotiating with the WTO to incorporate Scotland into its agreement. However, if done independently of the EU the four stages are as follows.

First, once Scotland was granted legal personality and customs autonomy, a Scottish Government would need to describe all aspects of its trade and economic policies that have a bearing on WTO agreements. When Scotland formally notified its intention to accede to the WTO, a working party would be set up made up of existing member states (the working party would be open to any member state). Scotland would submit a memorandum to the working party setting out all its proposed trade positions. That memorandum would in effect be a draft WTO schedule (a statement of all the quotas and tariffs a country intends to impose) setting out how Scotland proposed to handle tariffs and quotas for all aspects of its economy.

It is important to note that this is an extremely complex and time consuming process – every detailed category of goods and services imported or exported needs to be specified in terms of precisely how it would be treated. While in most cases this is not difficult in the sense of being hard to achieve (in the majority of cases Scotland will be unlikely to seek unusual or special treatment of areas of export or import), there is an awful lot of it to do. In addition, there may be a small number of trading areas which are of particular importance to the Scottish economy where more detailed and complex proposals may be required. If Scotland entered the WTO on its own it would probably have the advantage that the UK will already have to have done much of this work and of course, if an EU member this would be done through the EU.

Once the working party has made sufficient progress on principles and policies, parallel bilateral talks would begin between Scotland and individual countries. While the finally agreed trade policies would have to apply equally to all states (via the 'most favourable nation' principle in which every country has the right to be treated in the same way as the country which receives the best terms and conditions to ensure a level playing field), every individual member nation state will have particular trade issues which are of an especially high degree of importance to that nation. As well as producing a full set of proposals which must be acceptable to every member state (the large majority of which is likely to be unobjectionable to most), there will be specific areas of mutual importance that will need to be negotiated bilaterally. For example, if Scotland remained outside the European Union Common Fisheries Policy then the issue of trade in this sector of the economy is likely to be of particular concern to EU members and so will be scrutinised in much more detail through a bilateral process. It is to be noted that depending on the concessions Scotland is likely to seek or to give, this can be a very extensive and time-consuming process – the WTO is precisely designed for predictability and stability and changing terms of trade can be an arduous process.

Then, once both the working party has completed its examination of Scotland's proposed trade policies and all the parallel bilateral market access negotiations are complete, the working party will finalise the terms of accession. These appear in a report, a draft membership treaty ('protocol of accession') and lists ('schedules') of Scotland's proposed commitments. There is then a final decision. This final package, consisting of the report, protocol and lists of Scotland's offered commitments, is presented to the WTO General Council or the Ministerial Conference. If a two-thirds majority of WTO members vote in favour, Scotland would be free to sign the protocol and to accede to the organisation. It would be Scotland's decision whether the independent Scottish Parliament would also need to ratify the agreement before membership is complete, though for transparency purposes this would certainly be desirable. Subject to all of this, Scotland would then become a full member of the WTO and be bound by all its rules.

It is worth reiterating that becoming a full member of the WTO is a time-consuming process which may involve lengthy negotiation and re-negotiation. However, there are two important mitigating factors facing Scotland. Firstly, the Scottish economy is (through the UK's membership and the UK's integration in the EU's WTO schedule) already entirely used to all trade and customs policies being entirely aligned with WTO policies and so while there is a substantial amount of work required to codify policies and activities, there is little or no change likely to be required of policy or practice to become aligned with WTO policies. And secondly, it is very likely that by the time Scotland has become independent and has to produce a draft WTO schedule, the UK will already have left the EU and will therefore either be well into the process of securing full WTO membership or may already have completed accession.

The UK is and will remain a WTO member in or out of EU – the work it will have to do is to establish its own schedules. So a substantial amount of the work that Scotland would have to do will already have been done by the UK as part of its own accession process. This will mean that Scotland still has to do work on any area it is seeking particular or special terms on or areas that might create some tension with any other individual WTO member, but generally it is likely that Scotland will simply be able to adapt the UK schedule. During the accession process, Scotland would be free to seek 'observer' status at the WTO. This would give it access to a number of WTO services (at a membership fee) and the right to sit in the WTO General Council but without voting rights. This may be an attractive option to take.

These frameworks will create secure trading relationships between Scotland and the rest of the world. However, as Scotland currently has one dominant trading partner (the rest of the UK) it may be helpful to seek a specific trading relationship post-independence. If this is not achieved trade between Scotland and the remainder of the UK would be governed on the basis of whatever trade deal was agreed between the UK and the EEA (assuming there is one) or on WTO rules. It is at this stage impossible to say what the shape of that deal would be. Indeed, at the time of writing there are ambiguous signals on the likelihood of there being a full deal between the UK and the EU. If this deal was good enough, Scotland (as an EEA member) would be able to trade with the UK on that basis. If it doesn't, the UK will have some substantial economic problems and then Scotland and rUK would need to come to a bilateral deal after independence (which would be easier if in the EEA rather than the EU at the time of negotiating the deal since there would be no EU member state veto of the deal as there would be if Scotland was in the EU). It should be noted that if Scotland was not in the EEA, it's negotiating hand with the UK would be very much weaker.

It is worth pointing out that there are few international norms or frameworks for one-to-one bilateral trade deals. So long as all agreed terms are consistent with WTO rules it is purely for both parties to agree terms. In the event that Scotland was inside the EEA and the remainder of the UK was not, terms would need to be agreed such that no policy impacting on Scotland was contrary to the rules of the EEA. However, there is no requirement for EEA members to seek the approval of other EFTA-EEA members for bilateral trade deals (though as always that does not mean bilateral deals can lead to Scotland being non-compliant with EEA rules, which may be most complicated in rules-of-origin cases so Scotland would certainly not have a free hand to do anything it wants). It needs to be understood that this would only be possible so long as Scotland has strong customs arrangements in place as discussed earlier or it would be unable to monitor compliance issues.

So creating a Scotland/rUK trade deal is possible but requires a substantial amount of care. But for all the complications, there are many issues which are very unlikely to come into play. For example, there is very little chance of the rUK setting tariffs on goods for cross-border trade (at least in the foreseeable future). There is a greater chance of controls on the trade in services, but again as this trade is very much two-way both parties will want to minimise disruption. Equally, it is very difficult to see any feasible reason either partner would be interested in quota tariffs or indeed any form of quota (limits on how much of a good can be imported). While Scotland does have substantial export interests in the UK, it is helpful to be clear about the nature of these exports. For example, a large proportion (about a third) of Scotland's exports take the form of electricity supplied from Scotland to the rest of the UK via the National Grid.

There will be no desire by the UK to take actions which would increase that cost for the UK. Likewise, another substantial proportion of exports are payments of mortgages by UK householders based outside Scotland to banks registered in Scotland. The UK will wish neither to increase the costs of those mortgages nor to require all these properties to be remortgaged. Another substantial proportion of exports will be retail or supply chain trade, often within single major companies such as supermarkets. There would be substantial resistance to moves which added costs to their internal business models. The situation with cross-border services may be more complicated depending on how much the UK alters its regulation of the professions. Once again, if Scotland is in the EEA, any rule which makes it hard to trade services with Scotland would also make it hard to trade services with anyone else in Europe.

Equally, it is very unlikely that the rUK would wish to create conditions which made it difficult for Scottish citizens to work in rUK (and visa versa). A more complex issue might be differential rights to work for either EU or other overseas citizens. For example, it might be the case that the UK negotiates a cap on the EU citizens permitted to work in the UK but that subsequently an independent Scotland as a member of the EEA has no restriction. It is quite likely that there would be different work visa regimes for non-EU workers in Scotland and rUK. As discussed above, this could lead to concerns in both cases that Scotland might become a 'gateway' for unapproved migrant labour arriving in the UK. While it is hard to argue that this is any greater a risk than is created by, say, Heathrow, this is addressed by getting immigration policy right as discussed above. And this may in any case be resolved as the UK agrees some form of common travel area arrangement with the EU.

However, by far the most complicated aspect of a bilateral trade deal between a remainder UK and an independence Scotland would relate to regulatory issues. This area is horrendously complex and is by far the most time-consuming element of any bilateral or multilateral trade deal. The reason for the complexity is that regulation of a product includes regulation of any component part of that product or any aspect of its supply chain. For example, if the rUK took a different view on the regulatory acceptability of say genetically modified foods than Scotland then any product which had any element which would be legal in rUK but not in Scotland could not be exported – and the right of Scotland even to import them at all can be challenged by any other EU nation (though there are examples of cases where a single country allows the sale of goods not permitted in others, such as Norway's sale of chewing tobacco).

This might mean that one instance of vegetable oil being used to store a foodstuff which subsequently made up even a small part of a supermarket ready meal might make the entire ready meal unsuitable for cross-border trade. The picture becomes more complex again because of re-export where there is absolutely no option but to ensure that every component part of what is being exported is compliant. There is simply no way to make this complexity go away if Scotland is in the EEA and the UK is not. However, once again this problem is really a problem for rUK, not Scotland. This is going to happen to UK producers and service providers irrespective of the constitutional position of Scotland. If the UK alters the regulation of any profession in such a manner that it is substantially different than the regulation of those professions in the EU, then no UK-based professional would be able to sell services or trade in any way in the EEA.

In that event the professional concerned would need to set up a subsidiary practice inside the EEA and go through a second regulatory compliance process to be eligible to work in the EEA. What this means is that there is a strong incentive for the UK not to diverge too far from existing regulatory frameworks, particularly in areas where there is substantial export of goods and services. But until all of this is known it is not possible to resolve the individual issues. All of this means that Scotland has only two options – to work diligently and cooperatively with rUK to resolve these in the case of Scottish independence or to follow the UK into the unknown waters of its hard-to-fathom strategy for finding itself a new place in the world. It should be possible to create a framework that ensures the latter looks like the substantially bigger risk.

If Scotland can reach this stage, the only remaining step would be to apply to join the European Union. Being fully EEA compliant would mean the bulk of compliance issues have been met – but not all of them. Full EU membership would also require Scotland to become compliant on non-trade issues like fishing and agriculture policy and a range of other policy issues such as collective foreign policy and defence issues. This is a three-stage process. First, a country must get into a condition where it is broadly ready to join. This doesn't mean that absolutely every detail is in place (these will be negotiated during the second phase) but the European Commission must assess the country and its current state of alignment with EU policies and determine that it is now close enough to EU compliance that it can apply to become a formal candidate for membership. Scotland would be likely to be not far away from being ready, particularly if it had managed to achieve EEA membership first, but there may be some issues of domestic policy or practice or some performance indicators that the European Commission may wish to be altered or improved to be deemed ready.

Once this stage is complete and formal application for membership is accepted, Scotland would go into formal membership negotiations. First the Commission would do a full screening process, a detailed examination (in conjunction with the candidate country) of each policy field to assess how well the country is aligned. A 'screening report' then goes to the Member States along with a recommendation from the Commission either to move straight into full negotiations over terms of whether there are additional conditions they think should be met first. Once the Commission has recommended moving ahead and the Member States agree this, Scotland would have to put forward its negotiating position on the terms and conditions of membership and the Commission would do the same.

These then need to be negotiated until agreement is reached. There is no set time for this process – the negotiations cannot close until every EU government is happy with progress on every policy field. Only once every one of these 'chapters' (the report on each of the individual policy areas) is closed is the negotiation process completed. This will result in an accession treaty which will document all the terms and conditions (in detail) of Scotland's membership along with details on transitional arrangements and financial arrangements. Once this has the support of the EU Council, the Commission and the European Parliament, is signed by Scotland and representatives of all existing EU member representatives and that this is formally ratified by all parties (including any which require parliamentary votes or referendums) does it become binding. Scotland would then become an 'acceding country' expected to become a full member on the date set out in the treaty. There are some special arrangements in place for the interim period which gives it some commenting and observer rights in the EU.

It is simply impossible to assess how long this process will take – it can be slowed down or even prevented by the position of so much as one EU member country. If the proposed route of seeking a second referendum to decide the relationship with the EU is used, this does not prevent the above process from beginning - tentatively. Some negotiations can take place subject to the support of the Scottish population in a referendum. However, the formal process could not begin properly until the UK had come to an agreement with Scotland about independence and Scotland would need to be recongised as an independent nation state before a formal application could be made.

In all of the above it would undoubtedly be preferable if some degree of certainty could be achieved. Unfortunately, this simply isn't possible. There are simply too many variables in this – from what happens to the UK during the Brexit process to how any one of a number of foreign governments decide to act. And for campaigners for independence, there is simply no way to prevent an endless stream of 'doubts' being injected into the debate about these international issues. In most of the arrangements that are set out in this book, Scotland is free to act autonomously (though often it will want to coordinate with others) in setting up a Scottish state. In agreeing international relations, by definition Scotland cannot act autonomously. The only real solution to this is to present a very clear case on what Scotland will try to achieve in terms of international trade relationships, be clear and honest about the process and its complexity and then provide a plan for how a National Commission can best prepare to be able to carry out this complex work programme effectively. This means that serious consideration needs to be given to recruiting expertise in all these fields, along with first-rate international negotiating expertise.

However, other aspects of international relations are much easier to deal with. First of all, Scotland (mainly via the UK) is party to a large number of international treaties. These vary in form and significance, from extremely important legally binding ones through to symbolic ones with little real impact. Many of the most important come as a result of membership of the international discussed bodies above and so will be resolved during the process of joining (or developing another relationship with) these bodies. Others will be optional as part of membership (the United Nations has many forms of treaty or international agreement which are not ratified by many members states).

A lot of these will be about making a clear statement about Scotland's values and contribution to the world. For example, thefact that for any interim period an independent Scotland wasn't signed up to nuclear non-proliferation treaties obviously doesn't mean that Scotland would proliferate nuclear weapons. It is simply a statement of intent and Scotland could live up to the intent perfectly easily without (initially) being a signatory. It is simply infeasible to list the treaties here as there are hundreds and hundreds of them. The National Commission should set up a team to go through these, identify which have legally binding commitments and which are statements of intent, to identify how (and via which body) Scotland can sign up to these treaties (if it wants to), to propose which would be a priority, which would be desirable in the near future and which are either unimportant or actively undesirable and set out a plan for how they can progressively be dealt with.

The remaining tasks are to set up a Foreign Office and a consular network around the world. A Foreign Office is perhaps the best case study of a complex area which revolves almost wholly around human capacity. As was raised in the IT chapter above, some secure international communications networks need to be put in place but other than that the key to a successful foreign policy is good intelligence, good relationships and good judgement. There are a number of foreign policy positions which are crucial and these revolve around international organisations, areas of cooperation (particularly intelligence and defence) and legal positions (such as with trade). The most important of these have already been dealt with. Others (such as Scotland's stance on licensing weapons exports) will need to be put in place quickly (or Scotland would become an unregulated arms dealer). But these are mainly political decisions for a Scottish Government after independence. Scotland's foreign policy stance would, unlike the UK's, be a matter for democratic discussion and would not bring the complex baggage that comes with the UK's foreign policy stance.

However, a pressing matter is the development of a Scottish consular network. As well as a core component of building foreign policy relationships, a consulate is necessary to provide advice and support for Scottish citizens abroad who need it. They are also important hubs for various trade negotiations among other things. A consulate or embassy is purely a bilateral agreement between two nations – Scotland would simply need to find some appropriate 'real estate' in the host country in which to operate a consulate and the host country needs to recognise and treat this as a consulate. It should be noted at this point that there are some alternative options. For example, if Scotland becomes a full EU member, any Scottish citizen in any country which does not have a specific Scottish consulate is able to walk into and be supported by the consulate of any other EU nation. This is an EU-wide sharing agreement which greatly increases EU citizens' access to consular services. But there can be other forms of sharing agreement as well. This can be bilateral or a 'consortium' approach where a group of nations agree to share access to their consulates where they have one but another nation in the group does not. But this can also simply mean that two or more nations agree to share a consular building as a cost-saving measure. The UK has increasingly been doing this, mainly in sharing agreements with Canada and Ireland.

The question therefore comes down to where Scotland wants to have a consular presence – and how much money it is willing to dedicate overall to setting up consulates. Scotland could have a consulate in every country in the world (subject to their agreement) if it wanted, but it might be quite difficult to justify this in cost-benefit terms. It may therefore be worth beginning by looking at what Scotland's existing share of UK expenditure would 'buy' Scotland in terms of consular presence. The UK's Public Expenditure Statistical Analysis records indicate a sum of UK spending outside the UK of approximately £25.7 billion in 2015-16 but does not give a readily clear breakdown of the spending contained within this. If an 8.3 per cent population share is applied to Scotland then this would assume expenditure of around £2.1 billion.

The largest single fraction of this sum is likely to consist of the UK's foreign aid budget (approximately £8.2 billion split between £7.7 billion in economic aid and £0.5 billion in foreign military aid). The precise manner in which an independent Scotland would target and deliver foreign aid would be a matter entirely for policy makers to debate and decide – especially with regard to the proportion of military aid – but for the purposes of this paper the assumption will be made that Scotland will spend on foreign aid roughly in line with its current attributed spending as a percentage of GDP, around £1 billion per year. The next largest single item within this category is the running of the Foreign and Commonwealth Office. While the UK has one of the most extensive diplomatic networks of any country in the world – a relic of the state's former status as a globe-spanning Empire – the total budget for the FCO is comparatively modest on the scales of national expenditure at around £2 billion per year. However, this figure includes the comparative expense of running a UK embassy compared with other nations. A 2010 valuation found the capital costs of all of the UK's 268 diplomatic posts came to a sum of £1.87 billion – A little under £7 million per diplomatic post with the three offices within the UK totalling £237 million between them.

The total running costs of the UK consular network is around £7.5 million per diplomatic post per year. In contrast, the Government of Ireland spent around €76 million across its 69 diplomatic posts - €1.1 million per post and its most expensive embassy, in London, was recently valued at €5.2 million. Clearly, a Scottish foreign office which based its operations on utility and price efficiency rather than, perhaps, prestige would be able to find significant savings over these costs, particularly if it considered embassy-sharing approaches.

So Scotland could choose to establish and maintain a pretty extensive consular presence from within its share of existing UK expenditure – if it chose to. So this once more means that the decision is strategic. Scotland will want to present itself as a new and serious player on the world stage and will clearly want to provide strong consular support in countries where Scottish citizens are particularly likely to travel. It is likely that Scotland, as a minimum, would want to have consular presence in all EU member states and probably in most European countries. It will then want to have presence in each of the 'great powers' (the US – where it will want presence in more than one place – Japan, China, Russia and so on). It is then likely that there will want to be a spread of presence in a range of regions – so at least some presence in South America, South East Asia, the Middle East, North Africa and so on. And it will then want to identify any particularly important trading relationships or any form of special relationship where Scotland will want to have a presence.

Clearly where there is a large Scottish diaspora community (such as Australia, Canada and New Zealand) there will be a desire to have consular presence. And there will be some 'special cases' such as Malawi where Scotland has been fostering particular links. The National Commission should, with consultation, prepare an outline list for where Scotland would want to begin establishing consulates. Scotland will want to agree some transitional arrangements with the UK while this is being done.

Inevitably, the certainties that can be achieved domestically where the Scottish Government will have full sovereignty do not exist in international relations. People may hope for guarantees of outcomes, but they can't be provided. Instead, Scotland needs a really strong plan for establishing its international relations and positions, good people recruited to enact the plan and strong governing principles to help over come inevitable complexities and complications. Scotland can, eventually, be confident of achieving a strong and stable set of international relationships. However, a lot of work will need to be put in to get there.

Fairness in separation

The final remaining big part of the process of achieving Scottish independence is negotiation of the terms of separation with the rUK. The first thing to be said about this is that most people in the UK have recently had a lesson in negotiating as they have observed the Brexit negotiations between the EU and the UK. There is an almost universal belief that the EU was simply much better prepared for the negotiations and that they approached them with more experienced negotiators working to a much clearer strategy than did the UK. The strength of the EU's position in these negotiations was also greatly increased by a simple fact – the UK wants more out of this deal than does the EU, so the balance of power lies with the EU. The outcome of this has been a pretty difficult and torrid period for the UK negotiators. Scotland should learn some crucial lessons from this – and not least because it is reasonable to believe that the UK will have. In fact, while the Brexit negotiations may be causing the UK a lot of pain just now, they may well act as something of a 'training course' for when rUK negotiators meet Scottish negotiators to thrash out the details of independence.

So the following should be the lessons for Scotland. First, negotiation is a skill, and a very specific skill. A bright and capable politician may be very competent and yet still not equipped to lead those kind of negotiations. There is a fairly widespread view that the Scottish Government was simply out-negotiated in 2015 when the Smith Commission was producing proposals for greater devolution in Scotland. If Scotland wants to get the best out of negotiations with the UK it must take very seriously the need to identify and recruit negotiators who are experienced in these kinds of inter-governmental matters. They should be appointed and set a remit for negotiation by the National Commission in close consultation with the Scottish Government and the other political parties and civic Scotland – but they must then be free to devise and enact their own negotiation strategy. There is not space here to discuss the elements of an effective strategy but it is crucial to ensure that there are no 'hidden details' which surprise negotiators, that they are clear what is the 'window of acceptable outcomes' for what they are offered and so on. It cannot be stressed enough that sending in an eager politician to do this is unlikely to get Scotland the best outcome if they are met by seasoned, experienced negotiators on the other side.

The second lesson is that there must be a lot of preparation done. As has been seen throughout this book there are some ‘big ticket’ items of which everyone is aware, but just as importantly there are a range of smaller and more obscure issues which are nonetheless crucial. It is not good enough to be ready to fight a case on the big issues only to be outmanoeuvred on small issues which come back to haunt us. We must know absolutely everything we want, from securing our share of the UK’s valuable assets to getting an agreement that UK regulators will work to assist Scotland in setting up its own regulatory structures. These must be systematically ticked off the list, which is always complicated by the endless number of trade-offs which will have to take place.

The biggest mistakes in negotiating tend to be when you are worn down to the point where you accept things which you would not have accepted on the way in. There must be private red lines prepared on all the points and these should not be breached lightly. But knowing what you want isn’t enough – you must also seek to identify everything that your negotiating opponent wants. This prevents you being blindsided by requests you hadn’t considered but it also means that you are in a position to be able to use your leverage at whatever stage in the negotiations you need to use that leverage. Never miss something your opponent wants, or you’ll end up giving it to them without gaining any concessions on what you want. And another crucial part of the preparation is to back up everything you want with research – the ‘stick and carrot’ of negotiating.

For example, you need to know in advance the impact on the UK energy supply if Scotland was not exporting electricity to rUK so that if there are any threats to consensual working to facilitate that cross-border trade you are prepared to make the arguments. You need to be ready with precedent and legal advice and benchmarking and all the other data and context which you are going to need throughout negotiations.

The final lesson is that the more Scotland wants, the weaker its position, the less Scotland wants, the stronger its position. Had Scotland voted for independence in 2014 the requirement to agree a Sterling Union would have been so overwhelming that Scotland would have been the supplicant and that fact would have been used to wring out the most painful possible concessions in return. A large part of the purpose of this book is to produce a proposal for a transition to Scottish independence which is as ‘self-reliant’ as possible. The more that can be done without permission, agreement or contribution from rUK, the easier it is to negotiate what remains. If there are two substantive options – one that requires permission or sharing from the UK and one that does not, the latter option will strengthen Scotland’s negotiating position.

This should of course not lead to bad options being taken because they are more 'autonomous' and it would be very unwise indeed to believe that the best transition to Scottish independence can be achieved without positive cooperation from the rUK. So the aim should be to ask for what we need but to try and need as little as possible, and then to carry out negotiations in a manner that is as constructive and positive as possible to enable win-win outcomes wherever possible. (Being transparent during the process of these negotiations – reporting openly on progress – can help by informing the wider stakeholder community so they can bring pressure to bear at appropriate times as well.)

It is therefore worth trying to estimate what are the main things each side wants. If Scotland is not seeking to share any of the major or fundamental aspects of the British state in anything more than a transitionary way (such as agreeing a long-term Sterling Union) then there are basically three things it will want. The first is recognition – if the rUK does not recognise Scotland as an independent country at the end of the three-year transition process it is possible that other nations won't either (though alternatively if the UK was seen to be acting unreasonably, gaining recognition from other nations could be possible and would place a lot of pressure on the UK). And given that, as a permanent member of the UN Security Council the UK would have a veto on Scotland's entrance into the UN, it is important that the rUK accepts that Scotland is a new and autonomous country.

There is a possibility that, for reasons of aggressive leverage or even potentially out of spite, the UK simply threatens not to recognise Scotland until we concede all their demands. Scotland will need a contingency plan in case such a destructive approach is taken by the rUK. One of the biggest problems the UK faced (and at the time of writing continues to face) in its negotiations with the EU was that the UK had no 'zero option' – no plan to walk away if the deal did not suit and no strategy for imposing pressure on the EU outside the negotiations. Scotland must think hard about its 'zero option' – what to do if the rUK was to behave as if hobbling Scotland from the moment of its independence was a key goal of negotiations. It is of course to be hoped that this is not the case, but developing a response before reaching that point would be a necessary move.

The second is a division of debts and assets which is fair but which leaves Scotland with the lowest possible debt but with the infrastructure to be a successful new nation. This will be discussed below. And the third is cooperation. As has been seen, Scotland will need to agree a transition deal on defence and intelligence issues for a period as it builds up its own capacity. The Scottish Central Bank will need to coordinate constructively with the Bank of England. Each of the existing UK regulators will need to work closely with the Scottish regulators that are being set up, not least because there will be issues of mutual interest. Scotland will want to strike a positive commercial deal with the BBC to ensure continuity of programming in Scotland. Most certainly Scotland will want to work with rUK to design the right border solution for both; it will be in no-one's interests if the two nations are working against each other in the design of that border. Scotland will want some transitional support on issues of foreign relations, particularly on the issue of consular presences. And these are not the only issues of mutual interest where Scotland will want a positive relationship with rUK.

The UK's primary asks are a little harder to assess, mainly because their first big ask is for Scottish independence not to happen... In that context, one of its first hopes will be impossible for Scotland to meet, which is to retain the unfettered territorial access it has now, especially for military purposes and particularly for the housing of Trident. An independent Scotland would be legally capable of enforcing the removal of nuclear weapons from Scotland on day one and it has been shown that the technical capacity to do this would take only weeks (the nuclear warheads can be detached from the missiles and relocated out of Scotland to an rUK military facility in that timescale).

However, the ability to create a new naval port capable of housing an rUK nuclear capacity is severely limited – only a small number of feasible sites are possible because of the geography of the seabed (nuclear submarines need particularly deep-water ports) and of those most are infeasible because they are close to major population centres in England (which is not considered acceptable or appropriate in the way that housing them close to a major Scottish population centre apparently is). Even if a site is found, it would take many years and possibly decades for it to be developed to an operational stage and during this period the UK would have no working nuclear capacity. This will be very difficult to resolve given that either side appears to be committed to conflicting outcomes. Too much compromise may lead to a harmful political backlash in Scotland; but the alternative might be that the UK takes the most negative and destructive stance towards the rest of the negotiations. This will need to be handled carefully – but resolutely. There are other territorial and resource issues which may be controversial (for example, the Scottish maritime border) but these, by comparison, should be easier to resolve.

The border issue will naturally be important for rUK, but it is not straightforward to work out what its interests will be. On the one hand, it will not want to harm the rUK economy or the economic position of the many people in rUK who will continue to have economic and social links to Scotland. On the other hand, some of the political climate in England in particular appears not to be entirely rational on issues such as immigration and it might be that the London media will promote an attitude towards the Scottish border which obsesses on the incredibly unlikely but theoretical possibility that it becomes a backdoor into rUK for immigrants. The UK's position on borders and immigration is incredibly hard to make judgements about because at times it seems so utterly separated from the identifiable reality of the current situation that drawing rational conclusions is not easy. This issue will become much clearer as the politics of the situation become clearer closer to the time. The primary remaining interest of the UK will be to get Scotland to take as much of the UK's debt as possible – and to give away as few of the UK's assets as possible. In fact, this is one of Scotland's strongest bargaining chips and must be played carefully. As we shall see below, the international legal precedents (such as they are) are not in rUK's favour here and so a careful but forceful strategy from Scotland will be important.

So with this context set, what are the 'usual' approaches to one nation becoming independent from another? The problem here is that there isn't really a 'usual' approach since the nations which have become independent since the Second World War all have varying circumstances. Many of them became independent as part of a process of decolonialisation from former empires, particularly those of Britain and France. Here the nations were generally not democratic entities prior to independence and so the relationship between imperial power and ceding nation were quite different to that between Scotland and the UK. Something similar is the case with the collapse of the Soviet Union where the process of achieving independence was often sudden and chaotic.

There are some better precedents in the later division of former Soviet block countries such as Yugoslavia and Czechoslovakia – though the terrible ethnic conflicts that followed the former and the utterly mutual desire to separate in the case of the latter are clearly a different context than the situation in the UK if Scotland chose to become independent. The precedent which fits most closely is probably the case of an independence movement which did not succeed. The intense debate surrounding the constitutional status of the Québec in Canada, particularly in the run up to the second referendum in 1995, led to much discussion over how assets and debts could be split should independence occur. In addition to the population, GDP and beneficiary splits were discussed – and a method known as Bélanger- Campeau was also outlined. This method is essentially one where Québec would have taken on a level of assets and debts that was equal to its contribution to Canada, with the value of any federal assets and liabilities acquired (such as Government property and civil servant pensions) subtracted from that figure. Depending on which of these methods was used, the percentage of Canada's federal debt which might have been taken on by the new state could have ranged between 16.6 per cent under Bélanger-Campeau, through 23.2 per cent for a GDP or 25.4 per cent for a population split up to 32 per cent calculated by the 'historical benefit' measure.

There are also two United Nation treaties which are directly relevant here. The 1978 Vienna Convention on Succession of States in respect of Treaties outlines a series of assumptions on how the international legal commitments of a nation state would be divided between two states if it was to be divided. Then the Vienna Convention on Succession of States in respect of State Property, Archives and Debts was produced in 1983.

The basic principle in both of these is actually fairly straightforward – in the event of a nation state which either divides in two or where one part of the state seeks independence, there are basically two ways it can be handled. In one case there will be a 'continuing' state and a 'new' state. Here the 'parent' country retains international recognition that it is the same state it was before the separation, only with one part of it having ceded. The 'continuing' state maintains all the rights and responsibilities it did beforehand (from its membership of the United Nations under the name of the state with which it originally joined down to every treaty and financial commitment active at the time of separation). The other state – the 'new' state – has no rights (including to assets, other than in-country non-moveable assets), but no responsibilities. It must begin achieving international recognition from scratch, but it therefore carries no responsibility for any of the binding treaties, agreements or debts of the parent nation. It starts entirely afresh.

The other model is that the previous state (the parent state) simply ceases to exist and both the ceding states become 'successor' states. The successor states are new entities which much seek international recognition, but this time they must share between them all assets and liabilities. While it might have been possible to have a debate about which of these two models would be used in the case of Scottish independence, both sides appear to have simply accepted that the former is the case without there ever having been a debate. The UK simply expects that after Scottish independence it will continue to be the same UK but with one bit missing (as it did after Irish independence). It would retain its assets, its legal position, its place as a permanent member of the UN Security Council and so on. This makes it the 'continuing state', which by default makes Scotland the 'new state'. So if the Vienna Conventions were followed, Scotland would have no automatic right to anything which is not already in its territory (its schools and hospitals are its, but for example a share of the UK's gold reserves would not automatically be Scotland's right). The corollary of this is that Scotland would have zero responsibility for the UK national debt.

Now it is important to be aware that the UK (like most other developed nations) has not ratified the Vienna Conventions so they have no legal or potentially even moral bearing on the case of Scottish independence. However, as we have seen throughout this book, this is the de facto position Scotland and the UK would be in anyway. Whether it seems 'fair' or not, there is no way that Scotland could 'compel' the UK to share its assets if

Scotland became independent. Certainly Scotland would not automatically be recognised internationally as a nation state and would have to go through all the processes a ‘new state’ would.

Equally, despite an awful lot of bluster around the subject during the 2014 referendum campaign, all the debts which make up the UK’s national debt were legally signed by either the UK Government or the Bank of England. Just as there is no mechanism through which Scotland could seize assets after independence, there is no way the UK could subdivide this debt and re-designate it as being someone else’s debt (Scotland’s in this case). In any case, the creditors simply wouldn’t accept such a move given the likely different interest rates each nation would have in the early years. The default legal position matches the Vienna Conventions whether they have been ratified or not. This means that whatever solution is found must be negotiated and cannot be imposed by either side. In fact, the only unilateral action which could be taken by either side was a ‘walk away’ model where neither side agrees to either share assets or accept debts and so both nations must simply rebuild from where they are. Of course, this would have other consequences (such as the UK potentially refusing to recognise Scotland which, as things stand, could make it difficult for Scotland to join the United Nations). So there will need to be constructive negotiations.

However, as implied above, there are a few principles which it is to be expected would be adhered to. Physical assets, such as natural resources, government buildings and military bases, would usually be considered ‘immovable’ whereas military equipment, some publicly owned artworks or cultural artefacts, vehicles and, possibly, personnel may be considered ‘moveable’ assets. Aside from the movability of assets, they can be separately designated as ‘national’ (owned collectively by the prior state and hence shared between subsequent states) or ‘territorial’ (owned entirely by one or other state post-separation). Even liabilities may be considered territorial if, for instance, the prior state borrowed money to pay for an immovable infrastructure project located entirely in one subsequent state.

When states separate there is a general consensus that a territorial principle is applied to immovable assets and the subsequent state takes sole control of those military bases, public factories, government buildings and so on which are located within their border after the split, whereas moveable assets are subject to some kind of negotiation. That said, an ‘efficiency’ principle is sometimes also applied (at least when negotiations are comparatively amicable). If a state-owned factory cannot function effectively without the moveable equipment it depends on, such as vehicles and portable plant, then they will remain with the fixed assets. How the split of moveable assets is calculated can itself be the subject of intense negotiation as we saw in the case of the options considered and argued over in Québec.

Beginning under the 1997 Labour government, the UK produced a National Register of Assets which catalogued and estimated the value of all of the UK's publicly owned assets. On the grounds of bureaucratic complexity this program was cancelled in 2010 when David Cameron's Coalition government came to power, leaving the 2007 edition of the Register the most recent publicly available audit. As it stands, the 2007 register is now a decade out of date and pre-dates the beginning of the 2007/08 recession, the bank bailouts and nationalisations as well as two Conservative led governments pushing an 'austerity' agenda based on public asset sell-offs. It must be said also that the Register itself is not a perfect guide due to how it was created. Individual government departments were left to estimate the value of assets according to their own methodologies which led to some inconsistencies where one department would assign a monetary value to certain moveable assets but another may assign a low or even zero value to comparable assets held by it.

Part of this could be explained by the definition of 'value' being based on the ability and willingness (or lack thereof) to sell assets to the private sector rather than on the basis of share of ownership of public works. It would therefore be necessary for the National Commission to produce its own estimate of the value of UK assets before negotiations began. It is questionable how many of these assets Scotland would actually want any access to, but it will be important to know their value so that it can be offset against debts during negotiations.

Then we turn to debts. The UK is responsible for approximately £1.8 trillion worth of debt (as of 2017) held in a variety of bonds or gilts (which are interest bearing and may or may not be index linked) or treasury bills (which are not interest bearing but are sold at a discount on their reimbursement value). In terms of who actually owns these debts, the UK Government Debt Management Office produces quarterly reports outlining the structure of the UK's liabilities and shows that roughly a quarter of the UK's debt is owned overseas, roughly a quarter by insurance and pension funds, another quarter by the Bank of England (which, somewhat strangely, means that this portion of the debt is recorded as both liability and an asset on the public records) and the balance by financial institutions, private investors, local authorities and others.

With around 95 per cent of the UK's debt portfolio being interest bearing, there is a strong dependence of the cost of servicing this debt on the interest rate being paid. In recent years, indeed recent decades, there has been a general downwards trend in the yield of national government bonds and the UK has been no exception. Where a UK ten-year bond would have yielded 10 per cent per annum in 1986, seven per cent in 1996 and five per cent in 2006, the UK's ten-year bond yield stands at just 0.5 per cent and a weighted average yield across all bonds of roughly 0.7 per cent.

This goes a long way to explaining why the annual cost of the UK's total debt interest peaked at £44 billion per year in 2011-12 and has dropped to £36 billion in 2015-16 despite the total debt accrued increasing from £1.2 trillion to over £1.8 trillion over that period. However, that was a low point and as of January 2018 a UK ten year bond yield is at 1.25 per cent and the weighted average 1.18 per cent so costs are rising again. There have even been cases recently in countries such as Germany where bond yields have dropped below zero and have led to the situation where investors have, in effect, been paying the government to hold their money. It is clear that there has rarely been a better time for governments to borrow money and whilst this situation will and is having serious repercussions for pension and savings funds reliant on bonds, any government that wished to embark on a substantial capital investment project would find little obstacle in the way of being able to pay for it.

So what debts does Scotland have separately from the UK? Even under the expanded devolution settlement we now have in Scotland, the Scottish Government has only very limited ability to borrow money on its own account, only £600 million per year on the revenue budget and £450 million per year on the capital budget with total outstanding deficit and debt caps of £1.75 billion and £3 billion respectively. These combined deficit and debt caps are equivalent to 0.7 per cent and 3.0 per cent of GDP. Whilst the UK government also does not readily publish an audit of debts split on a contribution or territorial basis, the Scottish annual accounts, GERS, allocates Scotland's 'share' of the UK's debt and debt interest on a straight population basis (8.23 per cent in 2016-17, with £3.25 billion allocated as Scotland's 'share' of interest paid in 2016-17).

On this basis Scotland has been allocated a share of the UK's total national debt of around £148 billion. However, without any detailed audit of debt spent on a territorial basis then Scotland's actual contribution towards the total UK debt becomes difficult and highly contentious to estimate. One study by the Scottish Government, published in 2013, made the claim that since 1980 Scotland had, in fact, proportionately overpaid into the UK national accounts with an accumulated 'comparative surplus' of £222 billion. If these figures were accepted then the difference between a population and contribution share of the UK's debt could be the difference between an independent Scotland paying money to the rest of the UK and the reverse. It can therefore be seen that the debt and therefore the finances of a newly independent Scotland will be dependent on the separation agreement reached. It is therefore essential that the National Commission does substantial work to measure all the possible ways debt could be allocated to Scotland to strengthen its hand in negotiations.

Once such an agreement has been reached the next question is precisely how the transfer of ownership of the debt takes place. This is not a trivial question as the portfolio of debt is made up of individual bonds with individual owners. Assuming the rUK is considered the formal continuing state to the UK then responsibility for the UK's debts falls entirely to it. To transfer ownership of a bond to another state (i.e. Scotland) could not be done unilaterally and may not be meet with the approval of the owner of the bond and so such an attempt may constitute a default. Instead it may be arranged that a transfer agreement is established whereby the transferring state pays the transferee state an amount agreed based on the nominal outstanding debt at the time of separation. This may be a set amount or may be a set annual fee (fixed or as a percentage of revenue, as a percentage of GDP or some similar agreement) paid for a fixed amount of time and may include arrangements such as the currency that payments would be denominated in.

If an interest rate is attached to the payments then this would need to be agreed ahead of time as well, as if Scotland were to be making transfer payments to rUK it could not reasonably be penalised if the latter's bond yields were to rise due to economic mismanagement. However, there is good reason to believe that the preferable outcome for Scotland would be to agree a lump sum payment for any debt accepted so that Scotland could refinance this debt and therefore be in greater control of the management of the debt over its lifetime. There are three basic reasons for this. One is that there will be changes in the value of debt depending on the policies enacted by each state (Scotland and rUK). If Scotland managed its public finances better than the UK it might quite quickly be in a better position to finance and service debt – a possibility which has increased substantially with the likely impacts of Brexit. Scotland would then be incentivised to learn to run its finances well from day one. This would be a positive discipline.

Secondly, there is a good chance that Scotland could refinance the debt cheaper than the current effective interest paid on it by the UK. This is because, while Scotland's borrowing track record would be much less substantial and therefore it would pay a premium in interest during the early years, much of the UK debt was incurred at a time when effective interest rates were much higher and as we have seen this is a historically cheap time for governments to borrow. Refinancing the debt effectively could save Scotland very substantial amounts of money in debt repayment. Finally, Scotland will want to develop a positive relationship with money markets as quickly as possible. If it continues to manage any debt it incurs on the basis of fixed payments to the UK, it is the UK which maintains the relationship with the money markets and so Scotland does not develop a track record.

So what negotiating positions over debt might Scotland wish to take? The first is a 'subtractive model' – the one proposed by the Scottish Government in 2014. Under this approach the two nations (Scotland and rUK) would take possession of their relative territorial assets and a proportional share of all mobile and national assets. There would then need to be an argument over the proportion that would constitute Scotland's 'share'. This could range from the lowest percentage (based on Scotland's public revenue) through the more likely options (population and GDP share, which are very similar) through to land area (clearly disproportionately large for Scotland). Inevitably, each set of negotiators will pursue the option which is most beneficial to them, and may end up with a multi-metric model (where a number of different indicators are used to create a more balanced assessment of proportionality).

The UK position in 2014 was unsustainable – it argued that Scotland was entirely liable for a share of all its debts but that it was not entitled to a share of all assets (for example, Scotland's notional share of the Bank of England). There was an assumption that where either side was unwilling to either give or accept an asset the value of that asset would then be subtracted from the debt. Thus Scotland would be liable for all debts minus the value of any assets which are national but which either rUK will not give or Scotland does not want. Overall, this approach is probably particularly favourable to rUK because it pays no attention to the costs of setting up a new state. For example, UK government function X may have little capital value and so not be considered an asset, but nevertheless it has been set up and created over many years with Scotland paying its share. Scotland would then need to rebuild Scottish government function X at its own cost, having received no recognition for the track record of Scotland having paid to build and maintain it for the UK, which would inherit it 'cost free'. In addition, the assumption that debt is non-negotiable but assets are is against international normal practice and clearly put too much power in the hands of the rUK negotiators.

Another option is an 'additive model'. Rather than accepting some agreed percentage of assets and liabilities and then subtracting from it according to circumstances, Scotland could take the opposite approach. It could accept the UK's claim to be the continuing state in which case all national assets belong to the UK – but so does all of the debt. From this position, Scotland could agree to take on a level of liabilities matching the value of any assets it is granted, effectively 'mortgaging' them against UK debt. It may well be that rUK has comparatively little in the way of mobile (or share of national) assets that Scotland actually requires and that taking on a population share in return for those limited assets would be disproportionate.

This model is obviously significantly more favourable to Scotland as each asset required or desired must be identified and costed. Lacking a recent official Register of Assets, this process may be difficult. The National Commission would therefore wish to do a lot of work to create an accurate picture and to derive from that a detailed plan. But if a Scottish Government wanted this process to go as smoothly as possible it should want to begin this work before an independence referendum. There is a remaining question which would need to be considered – which is the 'moral' question. While this debt was incurred by a succession of Westminster governments over which Scotland has had only a small minority say and therefore does not bear anything like full responsibility for this debt, there is a moral question about whether a proportion of the debt should be accepted as a 'good will' gesture to the rest of the UK to ensure constructive negotiations. Under an additive model this would be a voluntary payment Scotland agreed to make as the new state seeking positive relations with the continuing state.

But there is a third option, a 'zero model'. In this case Scotland would take the position as taken in the additive model (that there is no right to assets and no liability for debt) but then not seek to negotiate ownership of assets. In this version Scotland would then have to raise finance to replace those assets rather than inheriting them and then paying a debt on what has been inherited. In this version, Scotland begins without UK debt but will then have to pay out of its own pocket for all start-up costs including replacing military hardware, identifying and establishing a consular network and so on.

This is broadly the position taken in this book as in each case-by-case section it was assessed that Scotland would generally be better off commissioning its own infrastructure base. In the section on defence there was a clear sense that Scotland would get a more fit-for-purpose military capacity if it was commissioned from scratch rather than pieced together from a share of UK assets. In the case of the consular network and so on, there is a strong case for creating a more cost efficient network than the UK's rather than sharing in its inflated costs. And there is an extra advantage to the 'zero model' which is that the money Scotland spends on rebuilding assets would potentially create a large economic boost to the Scottish economy. For example, if we inherit a UK frigate, the economic impact in Scotland is zero; if Scotland commissions its own frigate from Clydeside shipbuilders it creates jobs and economic growth in Scotland. The downside is of course that it takes longer to develop full capacity creating a longer transition. And this option of course still leaves open the moral question – should Scotland accept a moral debt to rUK citizens not to walk away from national debt which was incurred when Scotland was still part of the UK? So a zero model could still involve some kind of payment from Scotland towards UK debt.

It is worth dwelling very briefly on this question of moral debt – because it is not straightforward. The general view is that since Scotland benefited from what this debt was spent on, Scotland should meet its share of debt. But it is easy to argue that actually Scotland did not benefit equally from the creation of that debt. For example, over the course of the 20th century and still in the case of the last few decades, successive UK government's spending in Scotland has been well below our population share, not least because of the designation of 'national' capital expenditure which may not look particularly 'national' to Scots. For example, it's not just the final asset value of the London Underground (designated national infrastructure by the UK Treasury) which Scotland might argue it has paid for but a century of repeated expenditure on the London Underground, including some historical subsidies. It is very well to say that lots of central government expenditure was spent on behalf of Scotland, but it was spent almost wholly in London to the benefit of London.

So there is an argument that if we are taking our share of that debt, we should subtract from it a share of the estimated economic benefit that this brought to rUK (mainly London) which Scotland did not get from that expenditure. The reverse is also true – for 30 years Scotland's net revenues to the UK were larger than the UK's net expenditure in Scotland, and often substantially so. If we are to look at a profit-loss sheet of the relationship between Scotland and the rest of the UK, the contribution Scotland's oil wealth made is much bigger than any benefit Scotland gained from it. The UK argument has been, effectively, that debt is a 'current fact' but that the track record of revenue flows and expenditure is 'ancient history'. However, the debt is only a 'current fact' because it is based on a not-very-ancient history of revenue flows and expenditure patterns.

To use a domestic analogy, it might be a joint bank account but you bought the sports car, not me. Finally, not all debts should be accepted as debts. For example, quantitive easing which took place after the financial crisis of 2009 makes up a large proportion of the UK's notional debt (although whether this has already been effectively written off is disputed among economists) – but is owed to the Bank of England which effectively 'created the money out of nothing'. Scotland should not be including this notional debt in its totals. There is a genuine moral case for making a contribution, but there is an equally moral case for arguing that this isn't a blank cheque to extract money from the Scottish population.

There can be quite substantial differences according to which of these methods is used. For example, using the subtractive model, Scotland might have a debt share of £136 billion minus any share of assets (and set-up costs to replicate UK assets). Scotland could refinance this debt by issuing its own bonds and, assuming an average yield of 1.5 per cent (double the UK's rate to acknowledge Scotland's lack of borrowing track record) which would lead to an annual servicing cost for Scotland of about £2 billion (this might be for 30 or more years). However, that would still constitute a saving of about £800 million per year compared to what Scotland is currently paying as a proportion of UK debt repayment. If the additive model was used (without refinancing) and a conservative estimate of Scotland's share of assets being £50 billion and if we paid the UK average rate of 2.2 per cent, this would cost Scotland £1.1 billion per year. This would be higher if Scotland added an extra 'moral payment' on top. A zero model in which Scotland effectively 'walked away' and rebuilt all its own assets from its own budget (and assuming the same £50 billion sum as below) would be staged but come to an annual sum of closer to £750 million. It could be argued that the effective cost would be smaller given that it would stimulate economic activity in Scotland which would increase tax take and thus offset some of the cost. Again, this sum would be higher if Scotland added a 'moral element'. So it is clear that the maximum impact on Scottish debt liability (or equivalent) could be two or even three times as big under the most generous settlement to the rUK than under the most generous settlement to Scotland. It is therefore vital that this negotiating strategy is prepared well and enacted to the highest standards throughout negotiations.

There is an awful lot more that can be said about negotiations, covering (as they do, at least potentially) an enormous range of issues. For example, one of the issues not addressed in this book is the allocation of public sector pension debt between Scotland and rUK. This too would need to be negotiated. There will be many minor but important technical details that will need to be covered. So the complexity of negotiations should not be underestimated, nor should it be assumed that Scotland will get everything it wants. However, if Scotland goes in with the right team, the right strategy, sufficient preparations and working to a plan for creating a new Scottish nation which maximises the extent to which that nation can be 'self sufficient' in its creation (therefore relying on grace and favours from the rUK to the minimal extent possible), the corollary is no more true. This point is important to stress; Scotland is not in an inherently weak position, should not behave as if it is and should be clear that it does not view itself as the supplicant.

Summary of costs

Throughout this book, in each case that a major investment is required to establish a Scottish state, an attempt at an estimated cost of that investment has been made. In some cases these have been in a fairly wide range of possibilities. It is also the case that these costs would be treated in different ways. For example, the creation of a foreign currency reserve does create some debt, but it creates an asset substantially bigger than those debts. In the case of the costs of setting up a Central Bank, seignorage and investment income would fully meet those costs in under three years.

The same is true of investment in a proper Customs and Excise service. Other costs would be costs Scotland would want to argue should be subtracted from its share of debt to the UK and so would be offset elsewhere. Some further assumptions have been made – so for instance, if the National Commission were to have to pay fees on every single mortgage redenominated into Pound Scots it would come to £816 million. However, this is vanishingly unlikely so a very generous estimate of one in four mortgages being affected is taken here.

The following table provides a gross estimate of all the money which would need to be spent in creating an independent Scotland over a three year period (although it should also be noted that some of this would not all be spent within three years such as the defence expenditure). In each case the highest provided estimate has been used so these look more like maximum possible costs than those which would be actually incurred.

There is one cost in this table which must carry a substantial health warning – the cost of running and staffing the National Commission, including the costs of its consultation processes but excluding any capital costs (which have been included under specific headings below). Until a more detailed project plan was produced providing costings for this would be not much more than a rough guesstimate. A reasonable guesstimate might suggest something in the order of £500 million might be more than enough - but it is conceivable that the eventual cost was higher than this.

And there is one number which is not included – the capital cost of adapting the Scottish Parliament. The unknowns around that are too great to make a sensible estimate.

Item	**Cost (£m)**
Scottish Payments System	£30
Mortgage Redemptions and Transfers	£200
Currency Introduction/ATM modifications etc	£10
Currency design and production	£50
Foreign Reserve (UK assets)	£6,500
Foreign Reserves (Euro Bond Issue)	£8,000
Total IT	£1,250
Customs Service	£100
Consular network	£200
Defence Materiel	£8,000
Cost of National Commission	£500

This implies that the total cost of setting up a Scottish state would be in the order of £25 billion. Where would this money come from? There would be two sources for this – the value of inherited assets and borrowing by the National Commission (later to be refinanced as Scotland's national debt). The amount from those two sources would break down something like as follows:

	(£m)
Value of directly-inherited UK assets (approximate)	£15,000
Scottish borrowing	£10,000

What this means for Scotland's overall finances on independence day contains too many unknowns to say much more than this. In this book it has already been argued that there is a strong case that the start-up costs for Scotland should be subtracted from debt given that the UK is not being asked to repay the cost of setting up the same infrastructure – but Scottish citizens were asked to pay at the time as UK taxpayers. It has also only costed the value of UK assets that Scotland wants (the 'additive' or 'zero' approach to negotiations outlined in the last chapter). And as we have seen, the range of potential debt allocation methods provides for a wide range of outcomes with the highest amount being in the order of many billions of pounds bigger than the smallest. This would effectively dwarf the set-up costs. Deriving a sensible figure on what achieving Scottish independence would 'cost' cannot be sensible done at this stage. The best way to put it is that by the time of independence day Scotland would have already spent all the set-up money which needs to be spent and would become a 'normal' nation state operating on an annual revenue basis with no exceptional expenditure outstanding. And when that happened, the cost of its national debt would be unlikely to be substantially higher proportionately than it is at the moment – and could potentially be substantially lower.

So there is only one remaining number which it is worthwhile considering. If we take some broad estimates about what proportion of the money spent would be spent on goods and services (including salaries) in the Scottish economy, that number easily comes to something larger than £3 billion. The impact of that scale of economic stimulus in an economy the size of Scotland's is substantial and could be transformational (particularly if a strategic approach is taken to procurement). And given that none of this includes the likely ongoing income derived from this expenditure (better collection of taxes and customs, profits from running a central bank) and other potential savings (refinancing debt on better terms, substantially reducing future remedial work on public IT systems), the investment in Scotland's independence begins to look like rather an attractive one.

Conclusion

The project has been a wide-ranging attempt to explain in some detail what would be involved in establishing Scotland as an independent country. Where there are difficulties it has not sought to avoid or minimise them. Where there are unknowns it has not tried to pretend there aren't. It has sought to take an optimistic approach, but always tempered by realism. What it has not sought to do is make a case for Scottish independence. By confining its scope to the three years that would be needed to create an independent state it has not ventured much into the question of why we would want to bother, of what benefit it would bring to the people of Scotland. That argument is for elsewhere.

However that does not mean that it is not possible to see opportunity in the work that would need to be done. Indeed, it is hard to miss just how big an opportunity this is. To create a fit-for-purpose tax system, to have a defence system which efficiently focuses on defence rather than power projection, the chance to fundamentally fix public sector IT, the impact of having a proper Customs and Excise system, the chance to build a humane system of social security, the enormous injection of investment into the Scottish economy that would result, the thousands upon thousands of jobs it would create, the expertise it would bring to Scotland, the way it would effect how we see ourselves... In so many ways it is possible to see in this technical attempt to understand a transition to independence the very reasons so many people want that independence in the first place.

Those three transitionary years will be very hard work. Success is never guaranteed and must be fought for at all times. Some will find it daunting, others exciting and inspiring. There will be a period of rapid change. These will be three years which demand much industry and energy on the part of the Scottish nation.

But they are also three years of unprecedented opportunity – a genuinely once-in-a-lifetime chance to transform the lives of an entire nation of people.

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