

Thanks, Robert. That was a really clear introduction to the OBR and the world of independent fiscal institutions.....or IFIs, as they're known to those of us immersed in this world.

And immersed I've been for the last several years.....even though I came into it with barely a toe in the water.

The spring of 2014 – at a time of great debate in Scotland around the independence referendum, changes were afoot on the tax front as well.

John Swinney, then Finance Minister, phoned me one evening and said – ‘ Susan - you'll likely be aware that some taxes are being devolved to Scotland. I'm minded to set up a small commission – operating independently – to scrutinise the Scottish Government's forecasts of receipts for these new taxes.....and assess whether they're reasonable.

I've got two top-notch academic economists willing to come on board, and I'd like to put your name forward to chair the Commission.'

I was polite enough to thank him for the compliment, but said that, while I pay all my taxes because life's too short to do otherwise, I was hardly a tax expert.

Nor was I an academic or an economist. And I had no free time. Why me, I asked?

He said he wanted someone to chair the new body who could build it.....*and* who dealt *directly* with businesses and people.

He and I were each in a car at the time, heading to different destinations. As chance would have it, I got to mine first and, having run out of protests and excuses, I agreed – to what, I had little idea.

Fast forward several months, just post a Parliamentary debate to approve our appointments, and someone called Robert Chote got in touch.

I didn't know him either.....but he appeared in my office one day and spent several hours sharing a huge amount from *his* experience at the OBR.....just as he's shared a perspective this evening.

As Robert's already highlighted, an IFI's role and functions depend greatly on the context in which it operates.

For the most part, IFIs analyse public finances at a high level.....they don't forecast the individual tax and spend lines for the budget.

However, both the Scottish Fiscal Commission *and* the OBR *produce* the forecastswhich are used in our respective Government's budgets – something that's virtually unique compared to any other country.

We also share a driving ambition to produce independent, transparent and high quality forecasts *and* publications.

In these ways, the OBR and the Commission share similar characteristics.

However, there are a number of differences between the two of us, which, as you'd expect, relate to the distinctive fiscal devolution settlements under which we operate.

So I'll pick up the thread now of what all of this means *here*.....

Covering the *context* for setting up the Scottish Fiscal Commission.....as well as how, and why, our remit differs from the OBR's.

Going back to 2014, the Scotland Act 2012 had devolved two taxes to the Scottish Parliament – Stamp Duty Land Tax and Landfill Tax.

The new Scottish Fiscal Commission, a *non*-statutory body, was duly set up.....it comprised three of us, unpaid.....and the promise of not very much work (6 days).

Following the referendum that autumn, the Smith Commission recommended the devolution of *further* tax powers, *and* some social security benefits.

Discussions then began between the UK and Scottish Governments about how to devolve these new powers.....and what role the Scottish Fiscal Commission should play.

At the same time, the Parliament here was debating the Scottish Fiscal Commission Bill, which would put us on a statutory basis.

As the negotiations between the two governments progressed, it became more and more clear that our role would change substantially.

All this indeed came to pass in April 2017, when we became a statutory body..... responsible for – producing independent *fiscal* forecasts.....assessing the Government's borrowing projections.....

.....and producing Scottish *economic* forecasts, which are important as they feed into our fiscal work, especially on income tax and VAT.....as well as to the context for a Scotland-specific economic shock.

All of this, we like to think, adds transparency to the Scottish budget.

I'd note another conversation I had with Robert at *that* time, in quite a modest bistro in Paris the evening before an OECD IFI conference.

It was then that we began to map out how our two organisations might work together in a formal way, once *we* were statutory.

Though I have to say what was most memorable about that conversation was the little mouse who scurried under nearby tables gathering crumbs.

It's now 2019, and the Commission has come a long way from our early days.....we comprise four Commissioners with a breadth of expertise, and employ more than 20 staff.

As with the OBR's Budget Responsibility Committee, we – the Commissioners – are personally accountable for the output of the Commission.

The staff of the Commission – *our* staff – directly produce the forecasts on our behalf.

This *differs* from the OBR approach, where they use teams in HMRC, DWP and other departments to produce their fiscal forecasts.

And this difference relates to the context of devolution.

When the OBR was established, there was a long history of fiscal forecasting in *those* departments.....while in Scotland this is so much newer.

These were *big* changes for us in the Commission.....and they correspond to even bigger changes in the Scottish Government's funding arrangements and budget process.

Back in 2014 when we were first established, the Scottish Government's tax power was Non-Domestic Rates – which accounted for around 6% of the Government's Budget.

Next year, with income tax as well as the Land and Buildings Transaction Tax and Scottish Landfill Tax.....devolved tax revenues will account for 36% of the Scottish Government's total budget.

And, of course, the journey doesn't stop there.

Although devolution of Air Passenger Duty has been delayed, VAT assignment is due to begin in 2020.

Once those two are added in, the proportion of the Budget will increase to just over 50% coming from devolved taxes.

And there's *another* aspect of our work which is growing quickly – social security.

We've seen the new social security agency in Scotland begin to make the first payments for two new benefits – the Carer's Allowance Supplement and the Best Start Grant.

This is the starting point for what will become the devolution of over £3 billion of social security spending.

By now, you may well be wondering, what about fiscal sustainability and the Government's fiscal targets – matters we regularly hear discussed by the OBR.

Again, back to the *context* of fiscal devolution.

We have a role assessing the Scottish Government's borrowing projections.

However, as their borrowing powers are constrained, and they *must* have a balanced budget each year, there isn't the same *need here*.....as at the UK level.....to provide regular assessments of fiscal targets.

Likewise, we don't forecast *all* public spending – only social security as defined by our legislation.

That's because it's *this* area where eligibility-driven spending.....suggests that *independent* forecasts are likely to be helpful in setting the Scottish Budget.

As our work broadens, our forecasts are an increasingly important component of the Scottish Budget – both our tax and social security forecasts *must* be used by the Finance Secretary in the Budget.

That's partly why we draw on Scottish-specific data to the extent possible and keep pushing for more.

The OBR's forecasts of UK Government tax revenues and social security spending are then used to calculate the block grant adjustments applied to the Scottish Budget.

Take the third element, the Block Grant, put it all together, and Scotland keeps running.

But, of course, the Commission is *one* element in the new fiscal landscape here..... which has been quite a feat to create, as we'll hear in a minute from Alyson Stafford, Director General Scottish Exchequer.

Although we never had a mouse crossing *our* path, my conversations with Alyson, along the way, have been absolutely invaluable.

So, let me close with the reminder that forecasts are pretty much always wrong.

But, and I'm sure Robert would agree with this, by setting out to be as transparent as possible about how our respective forecasts are derived.....and by operating as *independent* organisations.....we go a long way to reducing the risk of bias in our respective forecasts.....and surely that's a benefit.