

Bruce Crawford MSP
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
EH99 1SP

22 February 2017

Dear Convener,

Thank you for sending me a copy of your letter dated 3rd February 2017. I welcome the opportunity to set out further details about the new role of the Scottish Fiscal Commission (SFC) once it becomes a statutory body on April 1st. What I describe below complements information previously shared with the Committee about how we will produce our independent forecasts on 5th October and 21st December 2016, and in our report on Draft Budget 2017-18.

The SFC was established in June 2014 as a non-statutory body to provide independent scrutiny of Scottish Government's forecasts of receipts from taxes devolved to Scotland. At the time, the remit encompassed two devolved taxes and the economic determinants of Non-Domestic Rates (NDR). This year, scrutiny of the forecast of income tax receipts arising from the devolved rate and threshold setting powers was added to the mix.

The Scottish Fiscal Commission Act 2016, the Scotland Act 2016 and the fiscal framework bring a significant change in the role and remit of the Commission and therefore transform how we will operate. On April 1st this year, the SFC assumes responsibility for independently forecasting Scottish onshore GDP, income tax receipts as above, Land & Buildings Transaction Tax, Scottish Landfill Tax, NDR, devolved demand-led social security expenditure, with Air Departure Tax being devolved in April 2018 and subsequently Aggregates Levy.

Work has been going on across the Commission to consider ways in which our statutory remit can be delivered, against these objectives:

- Delivering value for money to the taxpayer, ensuring that the model proposed is demonstrably efficient and adaptable
- Achieving the SFC's ambition to develop a strong reputation as a credible, independent and transparent body
- Clearly drawing on OECD Principles and best practice, in part by considering the operation of other Independent Fiscal Institutions.

As part of the transformation of our role, we have recruited staff to undertake the day-to-day analytical and forecasting work of the Commission. In total, 12 analytical staff have been recruited or seconded into the Commission from both the Scottish and UK civil service, academia and the private sector. These staff ensure that we have the appropriate backgrounds, specialisms and technical skills to produce high quality economic and fiscal forecasts. Their experience includes fiscal forecasting, macroeconomic modelling, housing market analysis, and public sector finances.

Over the coming months, the technical staff will develop and produce the models and forecast outputs, with challenge and direction set by Commissioners. This will ensure we discharge our statutory duties and create the right balance of accountability and assurance around the production of forecasts.

A detailed work plan is currently being developed, picking up on the modelling and methodological recommendations set out in our Report on Draft Budget 2017-18 and reflecting consideration of the Committee's Report on Draft Budget 2017-18. Once the Commissioners have agreed the work plan, it will provide a clear remit to Commission staff, guiding their work in the coming months. Regular updates on progress with the delivery of this will be provided to Commissioners.

The Chief Executive will be responsible, inter alia, for building and maintaining the strength of the technical team and enabling a productive and close working relationship between the Commissioners and the staff. In particular, the CE will ensure the Commissioners' strategic direction is implemented through the Commission's approach and work, overseeing forecasting and methodological developments by the Commission staff, and providing assurance to Commissioners around the production of forecasts and improvements to methodologies.

The Commissioners are statutorily responsible for the production of forecasts, and for publicly explaining the methodologies and assumptions used. The Commission staff will support the Commissioners in these statutory duties. The judgements and methodologies used will be informed not only by the work of the Commission staff but also by Commissioners' active engagement with other economic forecasters, commentators and expert advisers. The Commissioners will set the strategic direction of the organisation and its work and, along with the Chief Executive, guide and challenge staff to produce high quality, transparent and respected economic and fiscal forecasts.

My colleagues and I would be happy to discuss this approach with the Committee if that would be helpful. As with any start-up organisation, initial plans reflect best judgement at the outset; they may well evolve over time and we welcome other perspectives which may inform the operating model.

As I always do, I am copying this letter to the Cabinet Secretary for Finance and the Constitution.

Best wishes,

A handwritten signature in black ink that reads "Susan Rice".

Susan Rice CBE