



OECD Independent Fiscal Institutions Review

Scottish Fiscal Commission (SFC)



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OECD Review of the Scottish Fiscal Commission (SFC)

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Foreword

Independent fiscal institutions (IFIs) represent a major innovation in public financial management. They are an essential pillar of many countries' fiscal setup.

The OECD has been bringing together IFIs through its Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network) since 2009. The PBO Network seeks to identify and share good practices and to set standards for IFIs across member countries. It developed the 2014 *OECD Recommendation on Principles for Independent Fiscal Institutions*, which includes a provision on the need for IFIs to undergo external evaluations. The logic behind this is simple – with independence comes accountability. Just as IFIs help hold governments accountable, they have a special duty to be accountable as well. The review presented here is part of a series of IFI reviews.

The Scottish Fiscal Commission (SFC) was established on a statutory basis in April 2017 as Scotland's official forecaster for Gross Domestic Product (GDP), devolved taxes, and devolved social security expenditure. Undertaken at the request of the SFC, this review provides options and recommendations in light of national developments and international experience. Recommendations build on the strengths of the existing arrangements for the SFC and observed challenges. The review took place in the context of a fast developing political landscape, with uncertain effects on the evolution of the fiscal framework.

The SFC has achieved many positive results in the two years since its creation, building good relationships with stakeholders and a reputation for independent and credible forecasts, and improving the fiscal policy debate in Scotland. At the same time, it faces some challenges and pressures related to the relatively untested fiscal framework, a new budget process and access to information.

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

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Abbreviations and acronyms

ADS	Additional Dwelling Supplement
AIReF	Spanish Independent Authority for Fiscal Responsibility
ARIMA-X	Autoregressive Integrated Moving Average
BGA	Block Grant Adjustment
BPRG	Budget Process Review Group
CBO	US Congressional Budget Office
CFP	Portuguese Public Finance Council
CPB	Netherlands Bureau for Economic Policy Analysis
DWP	Department of Work and Pensions
FIAG	Financial Issues Advisory Group
FSU	Financial Scrutiny Unit
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HR	Human resources
IFAC	Irish Fiscal Advisory Council
IFI	Independent Fiscal Institution
IPFIN	Inter-Parliamentary Financial Network
LBTT	Land and Buildings Transaction Tax
MoU	Memorandum of Understanding
MSP	Member of the Scottish Parliament
NDR	Non-Domestic Rates
OBR	UK Office for Budget Responsibility
ONS	Office for National Statistics
PBO	Parliamentary Budget Office
PBO Network	OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions
rUK	Rest of UK (UK excluding Scotland)
SDA	Severe Disability Allowance
SEFF	Scotland's Economic and Fiscal Forecasts
SFC	Scottish Fiscal Commission

SGGEM	Scottish Government General Equilibrium Model
SLfT	Scottish Landfill Tax
SNP	Scottish National Party
SPICe	Scottish Parliament Information Centre
UK	United Kingdom
UKSA	UK Statistics Authority
UPB	Italian Parliamentary Budget Office
US	United States
VAT	Value Added Tax

Executive summary

The Scottish Fiscal Commission (SFC) has a central role in the Scottish Government's new fiscal framework, with responsibility for producing the official forecasts for Gross Domestic Product (GDP), devolved taxes, and devolved social security expenditure.

Despite operating in a highly politicised environment, the SFC has been successful in establishing constructive relationships with key stakeholders and has quickly developed a reputation for delivering independent and credible forecasts. The SFC's independence is underpinned by strong enabling legislation guided by the OECD Principles for Independent Fiscal Institutions (IFIs), and by the institutional culture of independence instilled by its first Chair.

The SFC has become a voice of authority, and is credited with enriching the fiscal policy debate in Scotland. It has significant engagement with the Scottish Parliament and receives broad media coverage. Stakeholders across the board praise the clarity and accessibility of its reports. Stakeholders also appreciate how the SFC has helped to improve economic statistics for Scotland.

At the same time, the SFC faces several challenges. The fiscal framework within which the SFC operates is complex and largely untested. The framework will be reviewed by the Scottish and UK Governments following an independent report produced by the end of 2021, and is likely to continue to evolve. The structure of this framework means that the SFC's forecast accuracy has significant fiscal implications for the Scottish Budget. Uncertainty is compounded by having two different forecasters for income tax – the SFC and the UK Office for Budget Responsibility (OBR) – and if their forecast errors are in different directions these errors generate significant reconciliations in later budgets. Moreover, the new budget process implemented in 2017 in response to recommendations from the independent Budget Process Review Group (BPRG) means that, particularly when there is a late UK Budget, the Scottish Government has limited time in which to develop its Draft Budget before it presents it to Parliament. This puts pressure on the Scottish Government's budget planning and may impede the ability of the SFC to deliver good quality and accurate forecasts to accompany the Draft Budget.

The SFC has had problems with access to information, mainly the reliability and adequacy of Scottish level economic and financial data, and the fact that it does not have a legal right of access to information from UK stakeholders. The SFC's initial experience in forecasting new social security benefits has been particularly challenging, in part because of initial difficulties accessing data from the Department of Work and Pensions (DWP) on existing benefits. In addition, the Scottish Government is reforming the design, delivery, and communication of benefits as they are devolved and information on these plans is not always available at the time the SFC produce their forecasts.

A summary of the main recommendations follows.

Recommendations

1. The SFC operates within a new, complex, and largely untested fiscal framework that is not widely understood. **The SFC should continue its efforts to explain the fiscal framework, reconciliations and associated risks in politically neutral terms.** The fiscal framework will be reviewed by the Scottish and UK Governments following an independent report produced by the end of 2021. **The SFC should play a role in providing technical advice during the review process.**
2. It is essential that the SFC has access to relevant information to fulfil its statutory duties. The SFC's statement of data needs identifies where new data and improvements in existing data are necessary. **The Scottish Government should continue to invest in Scottish economic statistics. The SFC should seek to strengthen further its MoUs with UK Government departments,** where appropriate adding more detail on the information requirements of the SFC, and associated timelines. The SFC has a legislative right to access information held by the Scottish Government and a subset of devolved public bodies, but it lacks the same right to access UK level data. **The Scottish and UK Governments should take steps to give the SFC a statutory right to access data held by UK Government departments and public bodies.** This could be considered during the fiscal framework review process.
3. The SFC is still embedding routine procedures in relation to forecasting devolved social security benefits and assigned VAT. **The Scottish and UK Governments should strengthen efforts to share information with the SFC on proposed policies from an earlier stage.** This should reduce the probability of large forecast errors that could cause the Scottish Government cash-flow issues. The SFC has not had a central interlocutor to help it establish contacts across UK Government departments. HM Treasury could play a greater role in coordinating the implementation of the fiscal framework across the UK Government. **The SFC would benefit from more regular direct engagement with HM Treasury, with the terms of this relationship set out in a MoU.**
4. The budget timetable in Scotland can also give rise to challenges for the SFC in relation to its forecasting duties. **The Scottish Government, the SFC and the Scottish Parliament should keep the process under review to ensure the SFC has sufficient time to deliver good quality and accurate forecasts.** This may involve discussions with the UK Government.
5. As a new institution, the SFC has been under pressure to prove its capabilities in delivering its tax and benefit forecasts. As new areas were devolved, the SFC developed more detailed models for forecasting smaller tax and spending areas than peer IFIs might have done, given their relative fiscal immateriality. Now that it is more established, **the SFC should dedicate greater resources to areas that are more important for the Scottish Budget.**
6. Despite rising costs in large areas of public expenditure, stakeholders noted a lack of analysis on fiscal risks and long-term sustainability in Scotland. The BPRG recommended that budget scrutiny should have a long-term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services. As part of its ability to produce reports on any "fiscal factor", **the SFC should consider expanding its work on fiscal risks, with a view to developing long-term sustainability analysis in future.** The majority of OECD IFIs undertake this type of assessment.

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7. The SFC Chair and Commissioners operate on a part-time basis. **The SFC should consider appointing the Chair or Commissioners to operate on either a full or a part-time basis.** Although the SFC has not experienced serious difficulties recruiting Commissioners in its initial years of operation, this would help increase the diversity of candidates. This would also allow for higher levels of interaction between the Commissioners and SFC staff, as well as, key stakeholders.
8. The SFC has had significant engagement with the Scottish Parliament. **The SFC and the Scottish Parliament should explore avenues to strengthen engagement with the Economy, Jobs and Fair Work Committee, on its economic forecasts, and the Social Security Committee on its forecasts for devolved social security benefits. The SFC should also take opportunities to hold more informal briefings and events with parliamentarians,** including as part of the induction process for new members.
9. **The SFC should develop its media-tracking capacity to better analyse and understand its media and social media impact.**

Methodology

1. The methodology for this review is anchored in the OECD Principles for Independent Fiscal Institutions (OECD, 2014^[1]) and a subsequent evaluation framework elaborated within the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). Principle 9.1 of the OECD Principles for Independent Fiscal Institutions states that:

“IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.”

2. This Principle has been reaffirmed in other forums, such as the Network of EU Independent Fiscal Institutions (EU-IFIs) in their document Defining and Enforcing Minimum Standards for Independent Fiscal Institutions (Network of EU Independent Fiscal Institutions, 2016^[2]).

3. The evaluation framework takes as a starting point internationally agreed standards (e.g. the OECD Principles). As such, the review assesses the SFC against these standards, benchmarks it against peer institutions in OECD countries and, where possible, identifies the difference it has made. The framework covers four main elements:

- **Context**, the institutional setting and mandate of the SFC
- **Inputs**, human and financial resources, access to information and independence
- **Outputs**, the SFC’s core products, including effectiveness of the methodology
- **Impact**, of the SFC’s work, including effectiveness of communications and stakeholder confidence

4. The evaluation framework follows a performance framework approach used by governments globally and leverages conventional evaluation tools such as stakeholder interviews and peer review.

5. The OECD make the final report available electronically on the OECD’s website. The OECD PBO Network will discuss the findings of the review at a peer review session during its 2020 Annual Meeting.

The review team

6. The review team included two members of the OECD Secretariat’s Budgeting and Public Expenditures Division in the Directorate for Public Governance, two international peers from Canada and Portugal, and one technical reviewer also from Canada. The review also draws upon contributions from other relevant members of the OECD Secretariat and peers within the PBO Network. The team undertook missions to Edinburgh in June 2019 and to London in August 2019 for stakeholder interviews (see Annex B for more information).

Chapter 1: Context

1.2. Introduction

7. The Scottish Fiscal Commission (SFC) was established to serve the needs of increased fiscal devolution legislated for in the Scotland Act 2012 (UK Parliament, 2012^[3]). Although the Scottish Parliament had limited tax-raising powers at the time of its creation in 1999, the advent of a Scottish National Party (SNP) minority government in 2007 triggered a series of political events that led to the UK Government legislating for greater fiscal devolution. The Scotland Act 2012 was the first legislative instrument to deliver increased powers. It provided for the Scottish Parliament to have the power to vary the income tax rate, and for two new taxes to be wholly devolved from 1 April 2015. The SFC was established on a non-statutory basis in June 2014 to scrutinise the Scottish Government's forecasts of these newly devolved tax powers. Subsequently, in April 2017 the SFC became an independent statutory body.

8. The SFC's mandate has continued to evolve with Scotland's devolution settlement. Following the 2014 referendum on Scottish independence, where independence was rejected by a 10-point margin, the UK Prime Minister appointed the Smith Commission to put forward recommendations for the further devolution of powers. Recommendations for the devolution of further tax powers to Scotland along with new social security powers and limited borrowing powers were then legislated for in the Scotland Act 2016 (UK Parliament, 2016^[4]).

Box 1.1. The Scotland Act 2016

The Scotland Act 2016 is the third major piece of UK legislation dealing with the powers of the Scottish Parliament after the Scotland Act 1998 and the Scotland Act 2012. Specifically, it provides for the devolution of the following tax and social security powers to the Scottish Parliament:

Tax powers: Income tax rates and bands on non-savings and non-dividend income, Air Passenger Duty, Aggregates Levy, assignment of some Scottish VAT receipts (first 10p of the standard rate and first 2.5p of the reduced rate).

Social security powers: Attendance Allowance, Carer's Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Benefits, Severe Disablement Allowance, Cold Weather Payment, Funeral Payment, Sure Start Maternity Grant, Winter Fuel Payment and Discretionary Housing Payments.

Source: (Berthier, 2016^[5]).

9. The Smith Commission also recommended that an "updated fiscal framework" for Scotland accompany the devolution of further powers. Part of the outcome of the fiscal framework negotiations was that the SFC would become responsible for the official

forecasts of Scottish tax revenue and social security expenditure.¹ Later that year, the Scottish Fiscal Commission Act 2016, established the SFC as an independent non-ministerial office, from 1 April 2017 (Scottish Parliament, 2016_[6]). Although there was debate around how the SFC should operate, there was broad support for an independent fiscal institution (IFI) in Scotland during the passage of the legislation.

10. To reflect new tax and social security powers devolved under the Scotland Act 2016, the SFC's mandate was expanded in 2017 to include forecasting of onshore Gross Domestic Product (GDP) and social security expenditure. In 2018, the SFC's remit was further expanded to include the forecasting of assigned VAT receipts.

Box 1.2. The SFC's legislative framework

The SFC was established on a non-statutory basis in June 2014, with a proportionate remit reflecting the fiscal powers devolved to the Scottish Parliament under the Scotland Act 2012. It was not until 1 April 2017 that the SFC was established as an independent statutory body through the **Scottish Fiscal Commission Act 2016** (from here on referred to as “the Act”). The design of the institution set out in the Act was largely guided by the OECD Principles for Independent Fiscal Institutions.

The Scottish Government has since used the regulation-making powers in Section 8 of the Act to expand the Commission's functions to reflect the additional powers devolved in the Scotland Act 2016. There have been two changes to the SFC's functions since its enabling legislation was first passed.

1. The Scottish Fiscal Commission (Modification of Functions) Regulations 2017 expanded the SFC's remit to include forecasts of “demand-led social security expenditure” and Scottish onshore GDP.
2. The Scottish Fiscal Commission (Modification of Functions) Regulations 2018 expanded the SFC's remit to include forecasting assigned VAT receipts. The regulations also aligned the SFC's two annual forecasts with the publication of the Scottish Budget and the publication of the Government's Medium Term Financial Strategy, in line with the new Budget process, and clarified that the SFC should be forecasting “devolved social security expenditure”.

Both changes have been made through regulations passed by the Scottish Parliament after scrutiny by the Finance and Constitution Committee.

The SFC's enabling legislation is complemented by the **Scottish Fiscal Commission Framework Document** - an agreement between the Scottish Ministers and the SFC that sets out the terms of an agreement between the SFC and the Scottish Ministers in relation to the governance, financing and operation of the functions of the SFC. The **Protocol for engagement between the SFC and the Scottish Government** is a statutory obligation further complementing the enabling legislation that also sets out how the forecast process works.

Source: Authors, 2019

¹ The original proposal was for the SFC to assess the Scottish Government's forecasts.

11. The expanded fiscal powers arising from the Scotland Act 2012 and Scotland Act 2016, together with a need to revisit the Scottish Parliament's budget process, gave rise to the establishment of an independent Budget Process Review Group (BPRG) in 2017, tasked with carrying out a fundamental review of the budget process.² The BPRG's membership included Scottish Parliament officials and Scottish Government officials. A number of external experts, including the Chief Executive of the SFC, also participated in the review.

12. The BPRG devised a revised budget process within the context of the Financial Issues Advisory Group principles,³ which addresses the increased level of responsibility arising from the new powers. The key recommendation of the BPRG centred on a new 'year round' budget process designed to give parliamentary committees greater influence on the Budget, particularly in the formulation phase. An annual medium term financial strategy was also introduced as an important document to support the work of parliamentary committees in evaluating and influencing the budget.

13. A particular challenge for the SFC is establishing itself within a context in which there has been recent evolution both in the budget process it supports and in the taxes and benefits that it forecasts. Of note, the new budget process implemented following recommendations of the BPRG means that, when there is a late UK Budget, the Scottish Government has limited time in which to develop its Draft Budget before it is presented to Parliament. This puts pressure on the Scottish Government's budget planning and this may hamper the ability of the SFC to deliver good quality and accurate forecasts accompanying the Draft Budget.

14. A further challenge is that the SFC is operating within a new and largely untested fiscal framework, in which its forecasts have a central role (see Box 1.3). The parameters of the fiscal framework mean that the SFC's forecast accuracy has implications for the Scottish Budget. The Scottish Budget has to be managed to account for in-year differences in revenues from fully devolved taxes and spending on social security to the forecasts used to set the Budget. Additionally the Budget has to be adjusted to account for reconciliations – in particular the differences between the forecasts of income tax on which the original Budget was based and the amounts actually raised. Reconciliations also occur for the Block Grant Adjustments (BGAs) for income tax, the fully devolved taxes and social security spending and are playing an increasingly important role in determining the amount available for the Budget from year to year.

15. Reconciliations can be managed through borrowing or use of the Scotland Reserve. However, funds available through borrowing or the use of the Scotland Reserve are currently insufficient to cover the large negative reconciliations forecast over coming years. This puts the Scottish Government in a position where it may have to make a policy adjustment in order to manage reconciliations.

² Some of the underlying principles of the Scottish budgeting process are set out in the Public Finance and Accountability (Scotland) Act 2000, some are set out in the Parliament's Standing Orders, and other measures are incorporated in Budget Bills. These statutory provisions are supplemented by a Budget Process Agreement between the Scottish Government and the Finance Committee.

³ The Financial Issues Advisory Group (FIAG) was established by the Scottish Office in 1998 to advise the Consultative Steering Group (CSG) on the Scottish Parliament on financial matters. The FIAG and the CSG developed founding principles for the parliament to guide the development of the budget process.

16. Many stakeholders raised concerns about the insufficiency of the borrowing provisions in the fiscal framework to deal with the scale of the reconciliations that have arisen. Stakeholders also raised concerns about the messaging around this. The complex nature of the fiscal framework means that there is limited public understanding around why forecast errors may arise and how the reconciliation process works. It is therefore possible for reconciliation requirements to be misrepresented, e.g., as being caused by budget mismanagement by the Scottish Government or poor forecasting by the SFC and/or the UK Office for Budget Responsibility (OBR).

17. The UK Statistics Authority, as the institution responsible for promoting and safeguarding the production and publication of official statistics that ‘serve the public good’, has an important role in ensuring that the guardians of the fiscal framework – the UK and Scottish Governments – do not misrepresent information around Scottish Government funding and the fiscal framework, including reconciliations. However, strong efforts by the SFC to explain the fiscal framework, reconciliations and associated risks in politically neutral terms will also continue to be crucial in ensuring that the SFC preserves its reputation.

18. The operation of the Scottish Government’s fiscal framework will be subject to a review following the provision of an independent report, to both the Scottish and UK governments, by the end of 2021. Given concerns raised by a large number of stakeholders about the workability of the current fiscal framework, most notably the insufficiency of the revenue borrowing powers and the Scotland Reserve to deal with forecasting errors, it would be prudent for institutions such as the SFC and the OBR to be given an opportunity to provide technical input in the forthcoming review.

19. Moreover, given the intention of the current Scottish Government to hold a second independence referendum, it is possible that the devolution arrangements – and thus the role of the SFC – will continue to evolve.

20. A potential second independence referendum, together with the existence of a minority Government in Scotland, a new UK Prime Minister, and uncertainties around Brexit, means that the SFC is currently operating against a very sensitive political backdrop. The SFC is conscious that its economic forecasting role could become politicised in the face of constitutional changes. Many stakeholders also raised concerns about the difficult position the SFC would be in during a second independence referendum, e.g., through its economic forecasts taking into account the effect of uncertainty on economic growth.

Box 1.3. The Scottish Government's fiscal framework and the role of the SFC

The devolution of new tax and social security powers through the Scotland Act 2016 required a change in the funding arrangements for the Scottish Government. The new arrangement was published by the Scottish and UK Governments in 2016 and is called the fiscal framework⁴. The fiscal framework provided the Scottish Parliament with both capital and resource borrowing powers and extended use of a reserve pool, called the Scotland Reserve. These can be used to reduce volatility in the Scottish Budget.

Local and devolved taxes, and social security powers

Non-Domestic Rates are a local tax, and Land and Buildings Transaction Tax, and Scottish Landfill Tax are fully devolved to the Scottish Parliament. Non-savings non-dividend income tax is partially devolved; the Scottish Government can set the rates and bands for the tax but has no power to determine the tax base. Three remaining taxes are due to be devolved or assigned: Aggregates Levy, Air Passenger Duty and the assignment of VAT.

The Scottish Government is in the process of devolving a number of social security benefits, with a current value of greater than £3 billion. In addition, they have power to create new benefits in areas of devolved responsibility. A number of benefits were devolved between 2015 and 2020, starting with two discretionary schemes, followed by a number of smaller benefits over this time.⁵⁶ A large number of disability benefits are expected to be devolved in 2020-21, vastly increasing the Scottish Government's social security powers.⁷

Funding and Block Grant Adjustments (BGAs)

The Scottish Budget is funded via the block grant, which is determined by the Barnett formula. As the Scottish Government now has power to raise revenue through devolved taxes or spend money on devolved benefits, the fiscal framework introduced BGAs. Social security BGAs add money to the Scottish Budget, as the Scottish Government is now responsible for paying benefit recipients while tax BGAs remove funding, as the Scottish Government is receiving tax revenues. The baseline value is equal to the revenue or spend in Scotland in the year prior to devolution. The BGA is then determined each year by applying an indexation mechanism reflecting the growth in comparable UK Government revenue or spending and taking into account relative population growth. BGAs are determined by HM Treasury (HMT), first using OBR forecasts then revised to consider outturn information, once it becomes available.

Forecasting

The Scottish Budget is set in advance of each financial year. HMT calculate the Barnett-determined block grant, which is fixed. HMT and the Scottish Government agree the BGAs used to set the Budget, based on the OBR's forecasts for the UK Government. These are added or subtracted from the block grant. The SFC provides forecasts of how much is expected to be raised from devolved taxes in Scotland. These figures are added to the block grant, resulting in the Scottish Budget. The SFC's forecasts of social security spending are used to inform the Scottish Budget allocated to social security.

Once information is available, the forecasts used to set the Budget are revised or reconciled to outturn. These reconciliations are a result of OBR or SFC forecast error and can be positive or negative. Reconciliations are applied to the Scottish Budget on an ongoing basis.

Source: Scottish Fiscal Commission, 2019

1.3. Governance structure and accountability

21. Like many OECD IFIs, the SFC is headed by a council, known as the “Commission”. There can be three to five Commissioners in total, one of whom is appointed Chair. The primary duty of the Chair is to provide leadership, direction, support and guidance to the Commission in the successful, effective and efficient performance of its functions. The Commission is directly accountable to the Scottish Parliament for the delivery of its functions, and not through Scottish Ministers.

22. The Commissioners sign off a Corporate Plan for the SFC that sets out its mission and strategic objectives. The first Corporate Plan covers 2017 to 2020, the SFC’s first three years as a statutory body (Scottish Fiscal Commission, 2018^[7]). Each year the SFC also publish an annual Business Plan with a high-level overview of its work programme for the year. The SFC seek for its work programme to reflect relevant areas of topical interest. It is developed based on issues raised by the Commissioners, SFC analysts and external stakeholders such as the Parliament and the media.

23. The Commissioners are collectively responsible for the leadership and direction of the SFC, and for ensuring that it carries out its statutory functions effectively and efficiently and that it achieves its published aims and objectives as recorded in the Corporate Plan. It has full discretion over how it fulfils and delivers its statutory functions, including determining its judgements, selecting its methods and deciding the content of its analytical publications and work plan.

24. The Commission operates within Standing Orders that are published on the SFC website. The Standing Orders set out arrangements for the Commissioners acting as a Governance Board. The Commission hold Governance Board meetings at least four times a year. The Chief Executive, Head of Corporate Services and Commission Secretariat (or their nominated representatives) attend all Governance Board meetings. Decisions of the Commission at Governance Board meetings are normally a consensus of those Commissioners present. Where consensus cannot be reached, a vote is held and the matter is decided by a simple majority of Commissioners present, with the Chair having any casting vote. The quorum for Governance Board meetings of the Commission is one less than the total number of Commissioners. Minutes from all Governance Board meetings are published on the SFC website.

25. The SFC has established an Audit and Risk Committee to support it in its responsibilities for establishing and maintaining a comprehensive framework for risk, control, governance and associated assurance. This includes oversight of the corporate risk register and risk management framework, the internal and external audit processes and the production of the Annual Report and Accounts. The Audit and Risk Committee is chaired by one of the Commissioners and includes internal and external auditors of the SFC, as well as an independent external member.

⁵ The discretionary schemes are the Scottish Welfare Fund and Discretionary Housing Payments.

⁶ The other smaller benefits include Carer’s Allowance, Carer’s Allowance Supplement, Employability Services, Best Start Grant, Funeral Support Payment and Best Start Foods.

⁷ In 2020-21, the devolution of Personal Independence Payments, Disability Living Allowance, Attendance Allowance, Severe Disablement Allowance and Industrial Injuries Benefit are expected.

26. Internal Audit is provided by the Scottish Government Internal Audit Directorate. The internal auditors regularly submit reports to the Commission's Audit and Risk Committee. These include an opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement.

27. In addition, the SFC is subject to external audit by Audit Scotland, the national auditor for Scotland. These audits are focused on the annual accounts and governance of the SFC. The SFC also cooperates with Audit Scotland in their work reporting on the Scottish budget and the devolution of tax and social security powers.

28. The first external audit of the SFC found that the financial statements of the SFC gave a true and fair view of its financial position. However, Audit Scotland recommended that the SFC's budget monitoring procedures should be improved, with regular, timeous and accurate reports being prepared and provided to management (Audit Scotland, 2018^[8]). The second audit report showed that some progress has been made in implementing these recommendations. It also reported true and fair accounts, no significant concerns about the overall financial position of the SFC and compliance with legal and guidance requirements.

1.4. Relationship with the legislature

29. The SFC's enabling legislation sets out that it is directly accountable to the Scottish Parliament. It also states that the SFC must lay its forecast reports, the annual forecast evaluation and its annual report before the Scottish Parliament, and that the Parliament has the power to require any Commissioner or Commission staff member to attend a Parliamentary committee. The SFC Framework Document specifies that the Commissioners should give evidence to the Finance and Constitution Committee at least twice a year, and to any other Committees that request it.

30. The Scottish Parliament has a role in the appointment and dismissal of Commissioners. Sections 15.3 and 20.2 of the SFC Act require parliamentary approval for Commissioners appointments and removal from office respectively.

31. In relation to Scottish Parliamentary Questions, the Framework Document states that Scottish Ministers will not answer questions on the operations of the Commission (including its forecasts and assessments). If Ministers require a contribution on operational matters, they will request one from the Chief Executive and if the question is purely operational, Ministers will refer the MSP to the Chief Executive directly. Correspondence from and with MSPs will normally be published on the SFC website.

32. The SFC has its own budget line within the Scottish Government's annual Budget, which is subject to the approval of the Scottish Parliament through the Budget Bill.

33. Overall, these provisions ensure that there are strong mechanisms that ensure the SFC has appropriate accountability to the legislature (OECD Principles 5.1 and 5.2⁸).

⁸ OECD Principle 5.1 states "Regardless whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to): (1) submission of IFI reports to parliament in time to contribute to relevant legislative debate; (2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; (3) parliamentary scrutiny of the IFI budget; and (4) a role for parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals."

34. The SFC have also held some private briefing sessions with Scottish Parliament committees. The purpose of these sessions is to provide an opportunity for the SFC to better explain their role and the challenges associated with it to Members of the Scottish Parliament (MSPs or Members). There may also be scope for the SFC to expand this engagement through providing “Explainer Sessions” for MSPs on the days when their reports are published.

35. SFC analysts also have a strong relationship with analysts in the Financial Scrutiny Unit (FSU) in the Scottish Parliament Information Centre (SPICe). The FSU provides independent analysis and support to committees of the Scottish Parliament and to individual Members on budgetary trends and issues.

1.5. Relationship with other institutions in Scotland⁹

36. The SFC is a young institution and over its initial years it has sought to develop effective working relationships with key public sector stakeholders, such as Revenue Scotland, the Scottish Parliament (including the FSU) and the Scottish Government (including analysts who produce official economic and fiscal data and policy officials).

37. The SFC also has regular informal contact with the academic community, think tanks, the Bank of England agent in Scotland, and other Scottish economic forecasters. The SFC voluntarily complies with the UK Code of Practice for Statistics and at the heart of its efforts to comply with the spirit of the code is user engagement. The SFC has hosted several events to foster engagement. For example, in October 2017, the SFC hosted an event for invited economists presenting the SFC’s analysis of the Scottish economy and seeking feedback on the SFC’s assessment. This was important as the SFC’s first forecasts of Scottish economic growth were much lower than other economic forecasters and the institution wanted to seek challenge and ensure it could not be accused of not considering all evidence in reaching its assessment. The SFC have also shared some of its models with academics, for example its income tax model was shared with the Fraser of Allander Institute.

38. The SFC have also held a number of public events in central Edinburgh. These tend to coincide with the publication of occasional papers on the SFC’s approach to forecasting different taxes and social security benefits. The sessions help familiarise stakeholders with the institution’s role and challenges. These are open to everyone and free to attend. These events were publicised through the SFC’s mailing list and Twitter account, as well as by inviting the SFC’s main stakeholders to attend. The Chair of the SFC has also spoken at events organised by external institutions, such as the Scottish Parliament’s Futures Forum and the David Hume Institute.

39. In terms of engagement with other bodies, the SFC has proactively invited representatives from all the main industry bodies to its events e.g. Scottish Council for Development and Industry, the Confederation of British Industry (CBI) as well as Scottish Enterprise and Highlands and Islands Enterprise. The SFC also meet with key figures

OECD Principle 5.2 states “The role of the IFI vis-à-vis parliament’s budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.”

⁹ The SFC’s relationship with other institutions in the UK is described in Chapter 4.

across organisations such as the CBI, the Scottish Retail Consortium, the Chartered Institute of Taxation (CIOT) and the Institute of Chartered Accountants of Scotland (ICAS) on a regular basis.

40. The SFC should continue to engage regularly with key institutions in Scotland to ensure effective working relations. Engagement with the analytical community is particularly useful in terms of developing the next generation of economic forecasters in Scotland. In this regard, the SFC participates in the Scottish Funding Council's Economic Futures programme and has hosted two summer interns in 2019. It has also provided dissertation topics and guidance for students at the University of Edinburgh. The SFC should continue to commission projects with students and academics as part of wider capacity-building efforts.

1.6. Mandate

41. The SFC is mandated to produce official and independent fiscal forecasts to inform the Scottish budget process. It does this through the twice-yearly publication of GDP, tax revenue and social security expenditure forecasts (see Figure 1.1). This mandate is clearly defined in Section 2 of the Scottish Fiscal Commission Act 2016 in line with OECD Principle 3.1.¹⁰

42. According to its enabling legislation, the SFC's forecast reports should include an explanation of the methodology used, the assumptions made and any risks that it considers relevant. Its reports must be laid in the Scottish Parliament on the same day as the Budget (typically in December) and as the Medium Term Financial Strategy (typically in May).

Figure 1.1. The Scottish Fiscal Commission's mandate



Note: The devolution of Air Passenger Duty has been delayed and so the SFC produce an illustrative forecast at present. Aggregates Levy is not yet devolved and so the SFC does not produce a forecast for this at present.

¹⁰ OECD Principle 3.1 states “The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.”

43. The SFC is one of only a small number of OECD IFIs that have responsibility for producing official, independent macroeconomic and fiscal forecasts. The only others are the UK OBR and the Netherlands Bureau for Economic Analysis (CPB). In contrast to the OBR, which draws on significant resources from within the Department of Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC) to help produce its forecasts, the SFC produces its forecasts in house.

44. The production of fiscal forecasts requires the SFC to cost any government policy measures at fiscal events. The SFC is also responsible for assessing the reasonableness of Scottish Ministers' borrowing projections. Unlike some other IFIs, the SFC does not have a role in relation to monitoring compliance with fiscal rules and is not required to assess fiscal sustainability.

45. In line with OECD Principle 3.2,¹¹ there is also a provision for the SFC to undertake work at its own initiative. Specifically, its legislation states that the SFC can produce reports on a discretionary basis in relation to any "fiscal factors" it considers appropriate. A fiscal factor is defined as anything that the Government uses to ascertain the amount of resources that are likely to be available for its use. This provision has given the SFC the ability to prepare reports on changes to income tax forecasts for the 2018-19 Budget, following an announcement in January 2018, and two supplementary costings later in 2018.

46. When the enabling legislation for the SFC was being passed, there was some discussion over whether the SFC should have the mandate to assess the long-term sustainability of Scottish public finances. Although the enabling legislation does not include this function, a number of stakeholders spoke of the valuable role that the SFC could have in undertaking work on fiscal risks and long-term fiscal sustainability. In addition, the BPRG recommended that budget scrutiny should have a long-term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services. The potential for the SFC to undertake work in this area is discussed in more detail in Chapter 3.

1.7. Global context: the IFI community and compliance with OECD Principles

47. The SFC has demonstrated a commitment to advancing practices and standards by actively participating in the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network) and the UK Inter-Parliamentary Financial Information Network (IPFIN). The SFC also attend other international conferences where relevant.

48. Analysis demonstrates that the SFC comprehensively meets the OECD Principles (see Table 1.1). The OECD Principles were a key consideration during the design phase of the legislation and this adherence to defined global standards provides the SFC with legitimacy among peer institutions and should provide confidence to its stakeholders in Scotland.

¹¹ OECD Principle 3.2 states "IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate. Similarly, they should have the autonomy to determine their own work programme within the bounds of their mandate."

Table 1.1. Does the SFC meet the OECD Principles for Independent Fiscal Institutions (assessment of legislation and practice)?

Key: ●=yes; ◐=partial; ○= no

OECD Principle	Assessment	Notes
1. LOCAL OWNERSHIP		
1.1 Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed.	●	The SFC enabling legislation was passed with broad support from all parties.
1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI.	●	The SFC was set up to meet the needs of a new fiscal framework in Scotland following increased devolution of tax and spend powers to the Scottish Parliament.
2. INDEPENDENCE AND NON-PARTISANSHIP		
2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, and serves all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.	●	The SFC does not provide normative advice or make policy recommendations.
2.2 The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit.	●	The qualifications in the Act (Section 16) relate to eligibility rather than merit or technical competence. However, the Framework Document and the public appointments process ensures that Commissioners are selected on merit and technical competence.
2.3 Term lengths & number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria & process.	●	The Act states that Commissioners may be appointed for a period not exceeding five years as determined by Scottish Ministers, renewable only once. It also provides for grounds for disqualification and specifies the ad-hoc removal process.
2.3 The leadership's term should optimally be independent of the electoral cycle.	●	The leadership's term is usually independent of the electoral cycle, as the typical term of the Scottish Parliament is five years.
2.4 The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards should be applied.	◐	Commissioners work part time, but are remunerated. Ministers must approve the rates of remuneration and expenses for Commissioners and Committee members who are not Commissioners.

2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.	●	The Commission employs staff directly and has freedom to hire and dismiss, subject to civil service rules, but Ministers must approve the terms of employment of the Chief Executive and staff.
2.6 Staff should be selected through open competition based on merit & technical competence, without reference to political affiliation, in line with civil service conditions.	●	Employees are civil servants. The Civil Service Commission (a UK public body) provides assurance that civil servants are selected on merit on the basis of fair and open competition.
3. MANDATE		
3.1 The mandate should be defined in legislation, including types of reports and analysis they are to produce, who may request them and timelines for release.	●	
3.2 IFIs should have the scope to produce reports and analysis at their own initiative and autonomy to determine their own work programme within their mandate.	●	The SFC's enabling legislation states that the SFC can produce reports on a discretionary basis in relation to any "fiscal factors" it considers appropriate.
3.3. Clear links to the budget process should be established within the mandate.	●	
4. RESOURCES		
4.1 The resources allocated to IFIs must be commensurate with their mandate.	●	
4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.	●	The SFC has its own budget line within the Scottish Government's annual Budget, which is subject to the approval of the Scottish Parliament. The SFC's budget is decided by Ministers and approved by the Scottish Parliament as part of the Budget Bill. By contrast, the budget for the independent Audit Scotland is set by the Scottish Commission for Public Audit and then approved by the Scottish Parliament.
4.1 Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.	●	The SFC's budget is set on an annual basis, with indicative funding amounts for the following two years.
5. RELATIONSHIP WITH THE LEGISLATURE		
5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature.	●	
5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.	●	The Scottish Government has limited time in which to develop its Budget before it is presented to Parliament, particularly when

		there is a late UK Budget. This may hamper the ability of the SFC to deliver good quality and accurate forecasts.
5.2 The role of the IFI vis-a-vis the parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.	●	The Act states that the Parliament has the power to require any Commissioner or Commission staff member to attend a Parliamentary Committee. Individual MSPs cannot request analysis.
6. ACCESS TO INFORMATION		
6.1 IFI should have full access to all relevant information in a timely manner.	●	The SFC has statutory right to access to information held by the Scottish Government and a subset of devolved public bodies, but not the UK Government and its public bodies.
6.2 Any restrictions on access to government information should be clearly defined in legislation.	●	
7. TRANSPARENCY		
7.1 IFI should act as transparently as possible, including full transparency in their work and operations.	●	The SFC publishes a multi-year Corporate plan, an annual Business Plan and an Annual Report and Accounts.
7.2 IFI reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to parliament.	●	
7.3 The release dates of major reports and analysis should be formally established, especially in order to coordinate them with the release of relevant government reports and analysis.	●	The SFC's enabling legislation prescribes for specific reports to be published alongside the Scottish Budget and the Medium Term Financial Strategy.
7.4 IFIs should release their reports and analysis, on matters relating to their core mandate on economic and fiscal issues, in their own name.	●	The SFC's enabling legislation requires the SFC to publish its reports in its own name.
8. COMMUNICATIONS		
8.1 IFIs should develop effective communication channels from the outset.	●	
9. EXTERNAL EVALUATION		
9.1 IFIs should develop a mechanism for external evaluation of their work.	●	The SFC Act requires the SFC to undertake external review. This first review covers the two years from 1 April 2017, with subsequent reviews planned every five years. The SFC does not have an external advisory panel.

1.8. Conclusions and recommendations

49. The need for the SFC in Scotland emerged as a result of the devolution of increased fiscal powers for the Scottish Parliament. The SFC is one of a small number of OECD IFIs with responsibility for providing official economic and fiscal forecasts. Its mandate has continued to evolve as Scotland's fiscal powers have grown.

50. The design of the institution was heavily influenced by the OECD Principles for IFIs and analysis demonstrates that the SFC does comprehensively meet these Principles. Adherence to defined global standards provides the SFC with legitimacy among peer institutions and should provide confidence to its stakeholders in Scotland.

51. There is the possibility that the SFC's role continues to develop given that the Scottish Government is proposing to hold a second referendum on Scottish independence. The potential second referendum on independence, together with other factors such as the existence of a minority government in Scotland, a new UK Prime Minister and uncertainties around Brexit mean that the SFC is operating in a very sensitive political environment.

52. The SFC is also operating in the context of a new budget process. Recent changes mean that when there is a late UK Budget the Scottish Government can have as little as three weeks to develop its Draft Budget before it is presented to Parliament. This puts pressure on the Scottish Government's budget planning and may impede the ability of the SFC to deliver good quality and accurate forecasts alongside the Draft Budget.

53. Furthermore, a key challenge for the SFC is that it is operating within a new, complex, and largely untested fiscal framework. Scotland is only now getting its first set of estimates around income tax reconciliations, and social security reconciliations will be beginning over the next few years. There is concern from stakeholders that the borrowing powers and Scotland Reserve are already insufficient to deal with the scale of reconciliations forecast over coming years. The complex nature of the fiscal framework means that there is limited public understanding around why forecast errors may arise and how the reconciliation process works. Strong efforts by the SFC to explain the fiscal framework, reconciliations and associated risks in politically neutral terms will be crucial in ensuring that the SFC preserves its reputation.

54. The fiscal framework will be reviewed by the Scottish and UK Governments following an independent report produced by the end of 2021. The SFC may wish to seek a role in providing technical advice during the review process to minimise any future difficulties.

Chapter 2. Resources and independence

2.1. Introduction

55. According to OECD Principles, an IFI must have resources commensurate with its mandate to fulfil its mandate in a credible manner (Principle 4.1). An IFI must also have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals (Principle 6.1). Finally, non-partisanship and independence are pre-requisites for any successful IFI (Principle 2.1).

56. An assessment of the resources and independence of an IFI must take into account human and financial resources, as well as whether these resources are predictable and sustainable. It should also examine the IFI's access to information and whether it has the necessary level of independence to carry out its work.

57. This chapter assesses the extent to which the SFC has sufficient funding, human resources, access to information, and independence in order to deliver its mandate. The SFC is widely perceived as independent and non-partisan. So far, the SFC has received adequate funding to undertake its tasks; in addition, it has received a commitment from the Scottish Government for stable funding for the next two years. With respect to access to information, the SFC's main challenges are the reliability and adequacy of Scottish-level economic and financial data and the fact that it does not have a legal right of access to information from UK Government departments or public bodies.

2.2. Funding

58. The SFC's enabling legislation does not establish the size of its budget. Instead, the process for funding decisions for the SFC is outlined in its Framework Document, which sets out the terms of an agreement between the SFC and the Scottish Ministers regarding the Commission's governance, financing and operation. The SFC is funded from the Consolidated Fund of the Scottish Government.

59. Each summer, the SFC's Chief Executive provides the Government with the SFC's budget requirements over the following three years. The Scottish Ministers then decide if the requested amounts are acceptable and provide a clear indication of funding for the upcoming year and indicative funding for the following two years. The amount for the upcoming year is included in the Budget legislation as a separate line. The SFC's budget is decided by Ministers and approved by the Scottish Parliament as part of the Budget Bill. By contrast, the budget for the independent Audit Scotland is set by the Scottish Commission for Public Audit and then approved by the Scottish Parliament.

60. If an agreement on the budget cannot be reached, according to the Framework Document, the SFC can make further representation, first between the Chief Executive, as Accountable Officer, and the DG Scottish Exchequer, and then, if agreement still cannot be reached, between the Chair of the Commission and the Cabinet Secretary for Finance, Economy and Fair Work. The final decision, however, rests with the Scottish Ministers to allocate funds for the Scottish Government Budget, and with Parliament to approve the Budget. Should there be a serious dispute in future, the SFC may also wish to raise it with the Parliament's Finance and Constitution Committee.

61. In the first two years of the SFC's operation, the Government's proposed funding has been in line with its funding requirements. The level of funding has so far been sufficient for the SFC to deliver its mandate and the SFC has never been threatened with budget cuts.

62. For the fiscal year 2019-20, the SFC's budget is set at £1.9 million, representing 1.7 per cent growth on the previous year. Indicative funding for the following two years shows an average annual growth of 3.2 per cent. As Table 2.1 indicates, spending on wages and salaries rose as the SFC established its staff contingent and is planned to be around 75% of the total budget going forward. This percentage is comparable to that of established peer institutions in the OECD, such as Spain (around 71%) and Portugal (around 72%).

Table 2.1. SFC budget (millions of pounds)

	2017-18		2018-19		2019-20	2020-21	2021-22
	Planned	Actual	Planned	Actual	Planned	Planned	Planned
Budget	1.67	1.67	1.63	1.63	1.93	1.95	2.02
<i>Commissioner costs</i>	0.13	0.10	0.12	0.10	0.12	0.12	0.12
<i>Staff costs</i>	1.18	1.03	1.10	1.21	1.38	1.45	1.52
<i>Other operating costs</i>	0.35	0.35	0.40	0.29	0.43	0.37	0.37
Total planned / spent	1.67	1.48	1.63	1.60	1.93	1.95	2.02

Source: Authors, based on information provided by the SFC.

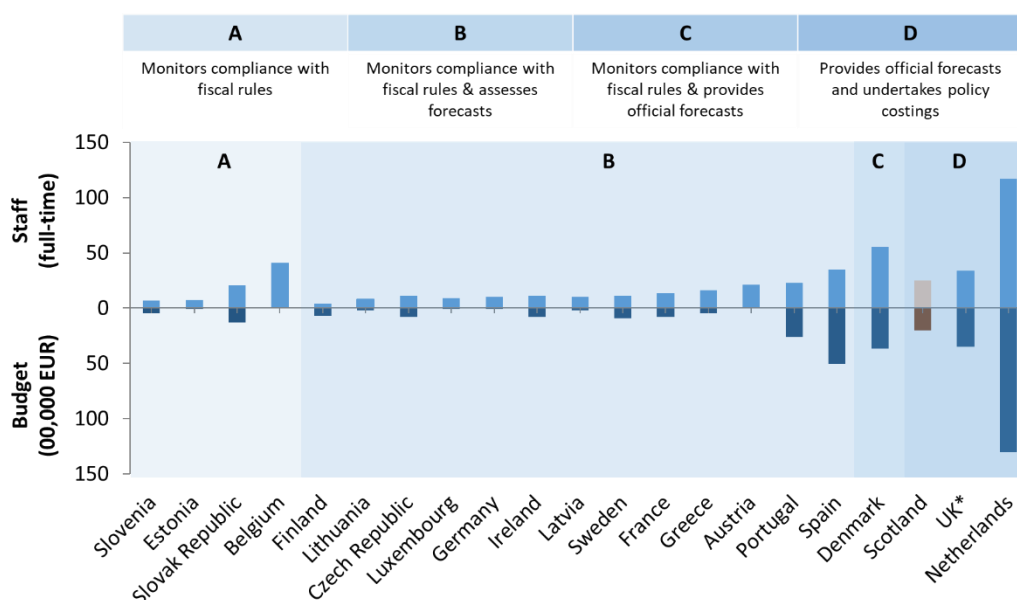
63. The SFC's 2019-20 budget (£1.93m) and the size of its staff (21 posts) are only around one-half and one-third smaller respectively than those of the OBR (£3.52m and 34 posts currently filled), despite the fact that the OBR produces more comprehensive forecasts for the economy and public finances and a wider range of other publications, as well as scrutinising a larger volume of policy costings from HMRC, DWP and other departments. However, this reflects the fact the OBR draws on significant resources from within those departments to help produce its forecasts and other analysis,¹² whereas the SFC produces all of its forecasts and policy costings in-house. The SFC have also had to build economic and fiscal modelling capacity in Scotland where limited capacity previously existed, creating many Scottish models from scratch and often working with very limited data. Additionally, the SFC has lesser access to UK information than the OBR and some UK stakeholders also noted that the SFC spends more time replicating their work ("shadow modelling") than the OBR. Together, these factors help explain the SFC's level of resourcing in relation to the scope of its work.

64. The SFC is relatively well resourced in comparison to European peers, although the functions of the SFC are broader and many European IFIs could be assessed as having very tight resourcing or being under-resourced. The only other European IFI which is mandated to produce the official forecasts is the Netherlands Bureau for Economic Policy Analysis (CPB). The CPB is a much older institution which also has a broad costing mandate which is quite resource intensive. While the CPB has a staff of around 120, of these about nine staff work on economic forecasting (three people devoted to working on the macro forecast completed four times each year, with another four people contributing

¹² An external review of the OBR published in 2014 found that the OBR was dependent on approximately 125 FTE employees from other government agencies to produce its core reports (Page, 2014_[49]).

on a part-time basis, and two-three senior staff members engaged in reviewing and refining the forecasts). In the future, if greater fiscal powers are devolved to Scotland, and if the SFC is given a broader mandate to examine further aspects of the Scottish Government's Budget, the size of the SFC's budget may need to be revisited.

Figure 2.1. Mandate and resources of IFIs across Europe



Note: *The UK also monitor compliance with fiscal rules. Data on the budget for Belgium and Austria are not available. Italy is not included in this figure as it does not easily fit into these categories, however, the PBO has a role in relation to forecasting, costing and monitoring compliance with fiscal rules.

Source: OECD IFI Database, 2019

2.3. Human resources

65. This section describes the organisational structure of the SFC, the role and responsibilities of its governing council and staff, and their appointment process. In total, the SFC has four Commissioners, a Chief Executive and 20 permanent staff.

2.3.1. Commissioners

66. Section 15.1 of the SFC's enabling legislation states that the Commission is to consist of a member to Chair it and two to four other members. Currently, the Commission has four members, including the Chair.

67. The Commissioners are responsible for ensuring that the SFC delivers on its legislated mandate. They are appointed for a period not exceeding five years as determined by the Scottish Ministers. They can be reappointed once. Appointments are regulated by the Commissioner for Ethical Standards. Every appointment must comply with the Code of Practice and any formal guidance issued.

68. The appointment process for Commissioners starts with an open competition overseen by the independent Commissioner for Ethical Standards in Public Life in Scotland. Shortlisted candidates then go before an interview panel that includes the Chair

of the SFC, a senior official from the Scottish Government, an independent expert and a representative from the Commissioner for Ethical Standards in Public Life in Scotland. The interview panel recommends suitable candidates to the Cabinet Secretary for Finance, Economy and Fair Work, who will in turn make a recommendation to Parliament. The Finance and Constitution Committee meets with the recommended candidates and makes its recommendation to Parliament.

69. Following parliamentary approval, the Cabinet Secretary for Finance, Economy and Fair Work appoints the recommended candidate. The Commissioners can be removed only with Parliament's approval.

70. The SFC Act does not provide any direction on the necessary qualifications for the Commissioners. Instead, Section 16 states conditions under which a person cannot be considered for appointment. The Framework Document sets out that the Commission should have a "mix of a range of relevant knowledge, skills and experience including, but not limited to, public sector corporate leadership and governance, finance, business, fiscal policy, economics and public service delivery".

71. The public recruitment processes that have occurred so far required technical and other specific competencies. The most recent advert stated that candidates should have "forecasting and fiscal/macroeconomic knowledge and skills", as well as, a proven track record at a senior level in developing or using forecasts and appraising fiscal and/or economic factors; be able to critique complex information and issues that underlie economic behaviours; and be able to demonstrate an appreciation of fiscal landscapes at a strategic level. It also said Commissioners should have "strengths in independence and integrity; analysis, interpretation and judgement; and communicating and influencing".¹³

72. Despite Scotland being a relatively small country, the SFC has not experienced serious difficulties recruiting Commissioners in its initial years of operation. It helps that the SFC is able to draw on candidates from a UK-wide field, with two of its current Commissioners based in England. The Commissioners have substantial technical and academic experience that is directly relevant to the SFC's mandate. All stakeholders see the Commissioners as independent and non-partisan.

73. The Commissioners work part-time and have a time commitment of 78 days a year (approximately 0.3 FTE). Given that the SFC's mandate and functions are likely to grow, the possibility of having a full-time Chair (or Commissioner) should be considered. This can be done under the current legislation. Part-time positions may be more attractive to certain candidates, for example, those towards the end of their career or academics. The option for the Commissioners or Chair to be part or full time could help widen the diversity of candidates in the future. In addition, some stakeholders expressed that they would like to have more interaction with the Chair and Commissioners but that this was difficult due to the part-time nature of their positions and the fact that they are not necessarily based locally.

74. To prevent the occurrence of any conflict of interest, the Commissioners are bound by the legislation that applies to most public appointees in Scotland. In line with requirements of being a Scottish public body, the SFC has also adopted its own code of

¹³ See,

https://applications.appointed-for-scotland.org/pages/job_search_view.aspx?jobId=1400&cf=rss

conduct that is based on the model code of conduct, and requires the Commissioners to register their financial and non-financial interests.

2.3.2. *Chief Executive and staff*

75. Section 22 of the SFC's enabling legislation states that the Commission must employ a person to act as its chief of staff. The Commission may also employ other staff to help fulfil its mandate.

76. It has taken some time for the SFC to build its staffing, in particular to find a suitable candidate for the Chief Executive position, but it has successfully recruited a competent team of analytical staff (including non-nationals). Currently, the SFC employs a Chief Executive and 20 permanent staff (Table 2.2).

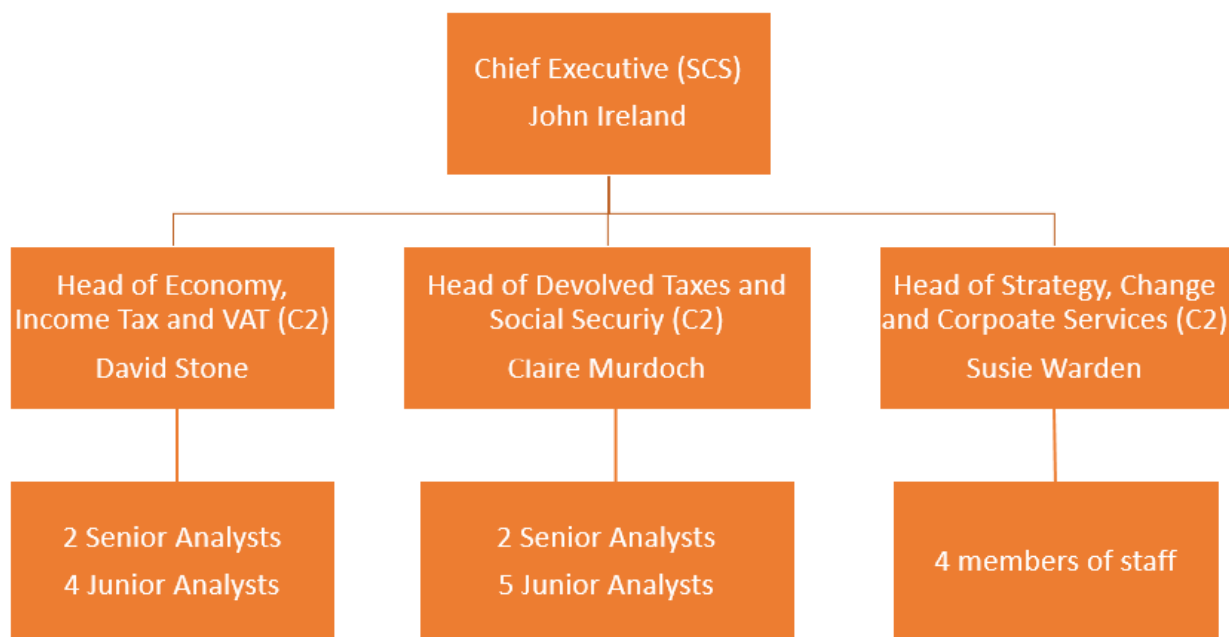
Table 2.2. SFC staff

	Headcount	FTE
Chief Executive	1	1
Economy, income tax and VAT (analysts)	7	7
Devolved taxes and social security (analysts)	8	7.9
Corporate services	5	3.85
Total	21	19.75

Source: Authors, based on information provided by the SFC.

77. The Chief Executive is the accountable officer of the SFC, which means they are accountable to Parliament for managing the Commission's operation and finances. The current Chief Executive has a four-year term until April 2021. Three managers who are responsible for the three business lines of the SFC report to the Chief Executive (Figure 2.2).

Figure 2.2. SFC organisational chart



Source: SFC, 2019

78. The SFC’s legal status means that its employees are civil servants. They have the same employment conditions, including grading, pay, holidays and pensions, as civil servants employed by the Scottish Government. The SFC’s staff have access to the Scottish Government labour market, and vice-versa, giving them the right to apply for posts advertised within each other’s institutions. This helps attract staff as it means that employees at the SFC can use their experience as a stepping-stone to other jobs in the Scottish civil service. On the other hand, challenges with the Scottish Government shared service human resources (HR) function has meant that SFC appointments have not always been as fast or straightforward as the SFC might have wanted. There has been some improvement recently as the Scottish Government has invested in this function.

79. The SFC’s staff are recruited through an open competition, consistent with the UK Civil Service Commission’s policies. The minimum educational requirement for the analytical staff is an upper second-class honours degree in a subject with significant economic or statistical content.

80. The current analytical staff have a mixture of doctoral, master’s and bachelor’s degrees in economics or statistical subjects. A number of stakeholders noted that the SFC has raised the analytical capacity of Scotland’s public service.

81. The gender balance of the SFC’s staff is commendable. Despite being a relatively small organisation, the SFC has managed to strike an almost 50-50 gender balance overall, and in senior management and senior analyst positions. This has been facilitated by its ability to recruit and second staff from within the Scottish and UK Governments’ internal labour markets, and its efforts to recruit staff from diverse backgrounds.

Table 2.3. Gender balance at the SFC (July, 2019)

	Female	Male
Commissioners	1	3
Senior Management	2	2
Senior Analysts	2	2
Analytical staff	5	6
Corporate staff	4	1
Total	14	11

Source: SFC, 2019

2.3.3. Peer review

82. Many IFIs have external advisory bodies that provide strategic advice and help them with quality assurance. For example, the US Congressional Budget Office (CBO) maintains a panel of academics and private sector experts who meet with senior CBO staff twice a year to advise them on their economic projections.

83. The SFC does not have an external advisory body. However, the SFC is committed to user engagement as part of its efforts to voluntarily comply with the UK Code of Practice for Statistics. As part of this, the SFC has regular engagements with academics, government analysts, OBR analysts and think tanks. This helps ensure the quality of its work. It also shares its models and forecasting methodologies with experts inside and outside the Scottish Government. In its first year of operation, the SFC made use of three senior academic consultants to act as critical friends to the Commissioners and analytical staff.

2.4. Access to information

84. For any IFI, timely access to comprehensive and reliable data and information is the most important factor in providing high quality estimates and analysis. For the SFC, this is even more important, given its mandate to provide the Scottish Government's official forecasts for certain tax revenues and social security spending. The importance of access to information is highlighted in the OECD Principles for IFIs. Principle 6.1 states that:

“This creates a special duty to guarantee in legislation – and if necessary, through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.”

85. The SFC's challenges in accessing information are twofold: the adequacy of the Scottish-level data; and, access to data and information held by the Scottish and UK Governments.

2.4.1. Adequacy of the Scottish-level data

86. Since devolution, the Scottish Government has intensified its efforts to improve the quality and scope of Scottish economic and fiscal statistics. In fact, relative to other regions of the United Kingdom, Scottish data are richer and timelier. However, there are still many gaps that can potentially affect the quality and robustness of the SFC's forecasts.

87. In 2017, the Economy, Jobs and Fair Work Committee of the Scottish Parliament held an inquiry into the adequacy of Scottish economic data. The Committee recommended

“the statistical needs of the Scottish Fiscal Commission – given its responsibility for economic and fiscal forecasting – should be top priority”. The Committee also recommended the SFC publish its data needs on an annual basis.

88. In September 2018, the SFC published a statement of data needs that acknowledged the progress in developing data in Scotland, and which identified the areas where new data and improvements in existing data would be necessary (Scottish Fiscal Commission, 2018^[9]). The key data gaps included:

- Social security data from DWP;
- GDP by component of expenditures in constant prices;
- Further breakdown of public sector expenditure by different levels of government;
- Timely and detailed data on Scottish wages and earnings;
- Detailed breakdown of household income;
- Scottish-level national accounts prices (deflators);
- Longer-term time series for all data;
- Increasing the quality and range of data for exports, imports, investment and capital stock; and,
- Timeliness of some non-domestic rates (NDR) data.

89. A second statement of data needs in September 2019 showed positive progress made towards filling these data gaps¹⁴ and again laid out priorities for improvement that the SFC believes will have the greatest impact on its ability to forecast (Scottish Fiscal Commission, 2019^[10]). Earnings data from the Office for National Statistics (ONS) and HMRC and the Scottish Government continue to be the area of most concern in the SFC’s economy forecasts, particularly because of the role of earnings in its income tax forecasts. Data from the Scottish Government, Social Security Scotland and UK’s DWP to support the SFC’s social security forecasts was also a priority. The SFC would also like more information from HMRC on how Real Time Information liabilities data are created and their relationship with outturn data, as well as more clarity on the current income tax liabilities revision process.

90. Addressing continuing data gaps requires further investment by the Scottish Government in data development and data quality and close cooperation from the UK Government, particularly DWP, HMRC and the ONS.

2.4.2. Access to data held by the Scottish Government

91. The SFC’s right to access information held by the Scottish Government is enshrined in its enabling legislation. Section 10(1) of the legislation states:

The Commission –

a) Has a right of access at reasonable times to any relevant information that the Commission may reasonably require for the purpose of performing its function,

¹⁴ See also discussion in Chapter 5.

b) May require any person who holds or is accountable for relevant information to provide at reasonable times any assistance or explanation that the Commission may reasonably require for the purpose of –

(i) Performing its functions, or

(ii) Exercising the right conferred by paragraph (a).

92. This right of access was reiterated in the Framework Document and the Protocol signed by the Scottish Government and the SFC.

93. The SFC has established a good relationship with the Scottish Government departments and public bodies that possess information it needs. It requests information and data through both formal and informal channels. In general, it receives the information, although timeliness is sometimes a challenge. The relationship is evolving and improving as both sides grow to better understand each other's needs and limitations.

94. Given that the SFC has to provide the official forecasts, it needs data as well as information on the Scottish Government's policy intentions. The exchange of information on policy changes has to be done in a timely manner, given that when there is a late UK Budget the Scottish Government can have as little as three weeks to develop its Draft Budget before it is presented to Parliament, accompanied by the SFC's publication on Scotland's Economic and Fiscal Forecasts. On tax policy issues, there is effective collaboration between the SFC and the Scottish Government, especially at the analyst level.

95. Revenue Scotland is the main source of data for devolved taxes. It has enhanced its capacity for data collection and data release significantly since its establishment in 2015. The SFC has signed a MoU with Revenue Scotland, which has greatly improved SFC's access to tax data (Scottish Fiscal Commission and Revenue Scotland, 2017^[11]).

96. The SFC has had particular challenges around social security, further discussed in Chapters 3 and 4. DWP holds the main data for social security programmes, and as benefits are transferred and administered in Scotland, Social Security Scotland will hold data the SFC require. However, the SFC also needs to receive social security information from Scottish Government officials on any plans for changes to the programmes and their delivery. This information is essential for the SFC to provide reasonable forecasts of social security spending. The difficulty arises partly because this is a new responsibility for the Scottish Government and is politically sensitive. In addition, the Scottish Government is reforming the design, delivery and communication of benefits as they are devolved and information on these plans is not always available at the time the SFC produce their forecasts.

2.4.3. Access to information held by the UK Government

97. Taxes and benefits are partially devolved to Scotland. This means that the UK Government continues to administer some programmes and holds the data and information that the SFC needs to provide reliable forecasts for Scotland budgets.

98. The fiscal framework agreement between the Scottish and UK Governments underlines that the SFC should have access to the data and information that it requires to deliver its mandate and provide forecasts as reliable as those produced by the OBR (Scottish Government, 2016^[12]). However, the SFC does not have statutory right to access information held by UK Government departments and public bodies. As a result, it has had to rely on formal and informal engagements with HMRC in tax areas, with the DWP for

social security benefits information and with the OBR on methodologies and models. This is discussed more fully in Chapter 4.

2.4.4. Tracking access to information requests

99. Overall, the SFC has been successful in mitigating the difficulties it faced in accessing information when it was first established. Using both formal and informal channels to improve access has been effective, but there remain areas where further progress is needed.

100. While the SFC's enabling legislation gives it statutory right to access information that is held by the Scottish Government and a number of other devolved public bodies, it does not lay out specific recourse for the Commission when an information request is denied or only partially fulfilled, as exists for some other OECD IFIs. For example, the Portuguese Public Finance Council (CFP) has a number of powers available to it in instances where the information is not supplied or the period taken to supply the information is unreasonable. These are graduated depending on the seriousness of the situation. The CFP can post a notice on its website stating the nature of the information not supplied and the parties involved. It can also formally advise the President of the Court of Audit, the Governor of the Bank of Portugal, the Parliament and the President of the Republic.

101. The SFC also does not publish information requests that it has made to the Scottish and UK Governments, or the responses to its requests, as is done for example in Australia and Spain. The Australian PBO monitors and reports on information requests sent and responses received, both in its annual report and in reports to the Senate Finance and Public Administration Legislation Committee. Some other IFIs track their information requests and publish the results. This has been an effective tool to improve compliance with information requests (see Box 2.1).

Box 2.1. Tracking information requests

Canadian Parliamentary Budget Office (PBO)

The Canadian PBO is entitled, by request made to the head of a department or a parent Crown Corporation, to free and timely access to any information under control of the department or parent Crown Corporation that is required to deliver PBO's mandate.

The PBO lists all its information requests on the communications section of its website. It discloses the date of the request, the government department from which the information is sought, and a description of the information requested.

Each entry contains details of the response. For example: "Requested information provided", "Requested information partially provided" or "Requested information was not provided". The exchange of letters relating to both the request and the response is also available online.

Spanish Independent Authority for Fiscal Responsibility (AIReF)

The law establishing Spain's Independent AIReF guarantees access to information in a timely manner. To monitor the requirement to collaborate with AIReF, in 2016 the

Authority implemented a system for tracking information requests to the various public administrations.

AIReF publishes summary information on its requests for information in its annual report. The Authority has three categories for classifying responses: ‘information received consistent with the request’; ‘partial response not sufficient for the analysis’; or ‘information denied, not consistent with the request or not submitted’.

Information is subdivided by type of public institution and type of data requested (for example, national accounts, debt, adjustment plans, fiscal rules, etc.).

Source: Authors, 2019

2.5. Independence

102. Independence and non-partisanship refer to the ability of an IFI to undertake its duties free from political pressure or influence. To align with the OECD Principles for IFIs, the enabling legislation of an IFI should ensure that:

- the head of the IFI is appointed based on merit and through a transparent process, preferably through a secondary approval process by parliament;
- the IFI’s budget is guaranteed and separated from other public sector entities;
- the IFI has control over its own work plan and the methodologies it uses to conduct its analysis;
- the IFI has control over its human and financial resources;
- the IFI has timely access to necessary information and data, and;
- the IFI publishes all its reports and analyses.

103. The SFC’s enabling legislation meets these requirements, guaranteeing its independence, although there remain some risks related to the budget process, as set out in Chapter 1. Legislative independence is not sufficient; an IFI must also function independently. That is achieved through developing a culture of independence by the IFI’s leadership.

104. The SFC has had the same Chair since its establishment as a non-statutory organisation in 2014. The Chair has vigorously defended the Commission’s independence by ensuring that its analyses and forecasts are free of any political influence.

105. Independence is also central to the work and ethos of the SFC, and this is integrated into its strategic objectives, set out in its Corporate Plan 2018-2020. Specifically, the SFC aims to provide independent forecasts and assessments to inform the Scottish Budget process “Working openly and constructively with stakeholders while maintaining our independence” (Scottish Fiscal Commission, 2018^[7]).

106. A stakeholder survey undertaken by the SFC in 2018 found that the SFC was clearly understood to be an independent organisation. As well as understanding that the SFC is constituted as an independent body, respondents’ perceptions tended to be that it is in practice independent (Progressive Partnership, 2018^[13]). These views were also reaffirmed by stakeholders that the OECD met, including Cabinet Secretaries, public sector officials, academics, parliamentarians and media. Stakeholders acknowledged that the SFC

is operating independently; and they commended it for providing credible and non-partisan analysis.

107. However, the SFC must work to maintain its independence in the context of the extremely sensitive political backdrop outlined in Chapter 1.

2.6. Conclusions and recommendations

108. The SFC was established with strong legislation that specifies its functions, protects its independence, gives it legal access to information, and lays out the process for appointing and dismissing its Commissioners. The legislation was heavily guided by the OECD Principles for IFIs and serves as a potential model for other countries that wish to establish an IFI.

109. Even though it is only five years old, all stakeholders view the SFC as an independent and non-partisan organisation. The SFC must work to maintain its independence against an extremely sensitive political backdrop and beyond the tenure of the current Chair.

110. The SFC, which is well resourced, has so far been able to provide high quality analysis and credible forecasts. As more taxes and benefits are devolved to Scotland in the future, this could strain the Commission's resources. In that case, the SFC should consider raising the resource requirements that it sets out to the Scottish Government.

111. Despite Scotland being a relatively small country, the SFC has not experienced serious difficulties recruiting commissioners in its initial years of operation. However, the option for the Commissioners or Chair to be part or full time could help widen the diversity of candidates in the future and would also allow for higher levels of interaction between the Commissioners and SFC staff, as well as, key stakeholders.

112. The SFC has been successful in recruiting a diverse and gender-balanced team of analysts and managers. Stakeholders believe the SFC has raised the technical and analytical capacity of the Scottish public service.

113. The SFC has legislative right to access information held by the Scottish Government and a subset of devolved public bodies, but it lacks the same right to access UK level data. In addition, there are gaps in Scottish level data that could negatively affect the SFC's ability to provide reliable forecasts and analyses. This merits further investment in data development by the Scottish Government and continued dialogue with the UK Government on data access on giving the SFC a statutory right to access data held by UK Government departments and public bodies (see also, discussion in Chapter 4).

Chapter 3. Methodology and outputs

3.1. Introduction

114. This chapter looks at the outputs of the SFC and the methodologies used to deliver them. It includes a technical assessment of the SFC methodologies, benchmarks them against those used by peer institutions. It also highlights key issues for SFC outputs.

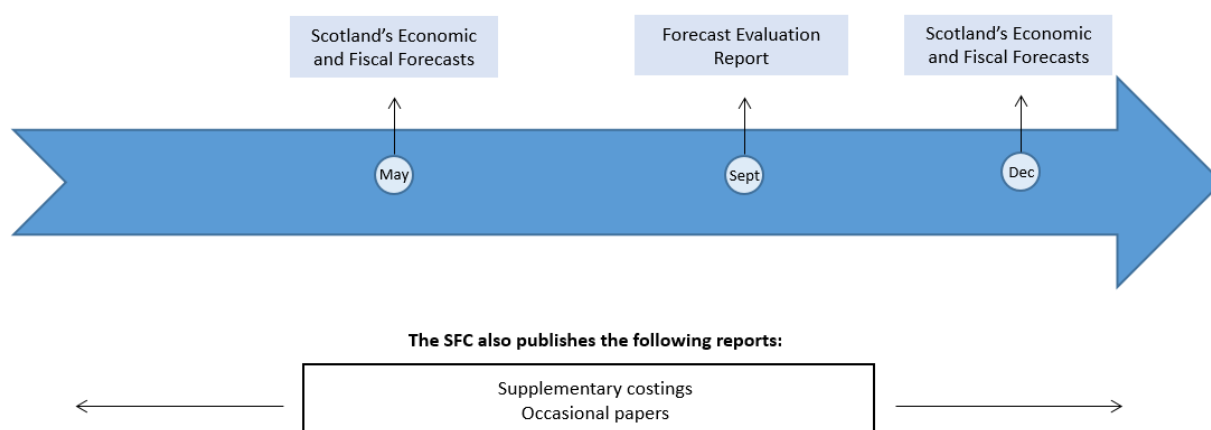
115. The SFC's tools are judged appropriate and its work is of high quality, clearly written and accessible. Key issues for SFC outputs include serving the needs of different audiences, challenges around social security forecasting, ensuring a proportional approach, the presentation of risks and uncertainty surrounding the forecasts, and the scope of the SFC's analysis.

3.2. SFC outputs

116. The SFC is one of only a small number of OECD IFIs that have sole responsibility for producing official, independent macroeconomic and fiscal forecasts. The SFC's GDP, tax and benefits forecasts are published in a document called "Scotland's Economic and Fiscal Forecasts" (SEFFs) which is laid in the Scottish Parliament twice a year, usually on the same day as the publication of the Draft Budget (typically in December) and the Medium Term Financial Strategy (typically in May). These forecast reports include an explanation of the methodology used, the assumptions made and any risks that the SFC considers relevant.

117. Figure 3.1 illustrates the timing of the SFC's reports throughout the budget cycle.

Figure 3.1. SFC reports throughout the year



Note: Before becoming a statutory body on 1 April 2017, the SFC prepared non-statutory reports on the Scottish Draft Budget and non-statutory outturn reports.

Source: Authors, 2019

118. Based on current Scottish Government legislation, the SFC's forecast reports should contain five-year forecasts of:

- Onshore Scottish GDP
- Scottish non-savings and non-dividend income tax
- Fully devolved taxes:¹⁵
 - Land and Buildings Transaction Tax
 - Scottish Landfill Tax
 - Air Passenger Duty
- Local tax: Non-Domestic Rates
- Assigned VAT receipts
- Devolved social security expenditure

119. Unlike many of its European counterparts, the SFC is not mandated to monitor compliance with fiscal rules, nor does it assess fiscal sustainability. However, it is responsible for assessing the reasonableness of Scottish Ministers' borrowing projections. The production of fiscal forecasts also requires the SFC to cost any government tax and social security policy measures at fiscal events.

120. The SFC can produce reports on a discretionary basis in relation to any "fiscal factors" it considers appropriate and does so in practice. A fiscal factor is defined as anything that the Government uses to ascertain the amount of resources that are likely to be available for its use.

121. By law, the Scottish Government must use the SFC's forecasts, or explain to Parliament why they have not been used. To date, the SFC's forecasts have always been used.

3.3. Technical assessment of SFC methodologies

122. The review team assessed the appropriateness of the SFC's tools to deliver its mandate according to the technical assessment framework for IFIs developed by the OECD's Directorate for Public Governance. This assessment framework weighs both academic and practical considerations. The technical assessment framework also compares an IFI's tools to the practices of other institutions in the OECD's PBO Network and draws upon research and guidance from other supranational organisations.

3.3.1. Assessment criteria

123. The framework assesses the technical fitness of an IFI's macro-fiscal analysis tools across seven academic and practical criteria that correspond to questions an IFI should reflect upon when choosing the tools to deliver its mandate (Table 3.1).

¹⁵ As previously noted, devolution of Air Passenger Duty has been delayed and so the SFC produce an illustrative forecast at present. Aggregates Levy is not yet devolved and so the SFC does not produce a forecast for this at present.

Table 3.1. Assessment criteria

Theory	Does peer-reviewed literature support (or not provide a strong argument against) this tool for the analysis, given the available data and sample size?
Accuracy	Is this tool likely to give accurate results (or avoid systematic bias) if applied to this problem?
Communication	Can the tool's outputs be convincingly communicated to stakeholders?
Transparency	Can the tool's methodology and assumptions be provided to the IFI's stakeholders in a manner that will satisfy requirements for transparency and accountability?
Proportionality	Are the resources devoted to this tool proportionate to the activity's weight in the IFI's mandate and its materiality to the public finances?
Sustainability	Does the tool require a level of expertise that is appropriate to expect from IFI analysts to avoid revisions as the result of staff turnover or the gradual erosion of the model's performance over time?
Precedent	Is the approach used widely at other IFIs and public finance institutions?

124. Because IFIs fall across a spectrum of roles and responsibilities, the assessment criteria above were adapted to the Scottish context and specified in terms of the SFC's institutional arrangements and primary and secondary governing legislation, as well as its MoU with other government agencies and discretionary operating guidelines it has set for itself.

125. Benchmark institutions in the OECD's assessment framework include the US CBO, the Canadian PBO, Spain's AIREF, the Portuguese Public Finance Council (CPB), the Swedish Fiscal Policy Council, and the UK OBR,¹⁶ among others.

3.3.2. Results

126. The technical assessment concluded that each of the SFC's methodological approaches are appropriate for its analysis and legislative requirements and generally match the standards accepted for the macro-fiscal frameworks of other IFIs (see summary list in Table 3.2.¹⁷

127. In the case of the SFC's medium-term economic forecasting tool, the Scottish Government Global Econometric Model (SGGEM), a qualified opinion of appropriateness has been issued. The SGGEM is developed and customised for Scotland by a third party (the National Institute of Economic and Social Research) and formally owned by the Scottish Government. While appropriate for the SFC's age and circumstances, the tool should be reviewed to bring aspects of its ownership, communication, and transparency more in-line with practices at longer-established IFIs. The SFC is already well into this review process and began material work to address this issue in 2018, before the OECD's review began. The SFC plans to develop its in-house macroeconomic model by late 2019, to be further refined and run in parallel to SGGEM in 2020.

¹⁶ The review team has been cautious in comparing the SFC's techniques with the OBR's, as the two IFIs have agreed to collaborate on model development in some areas. Assuming one model is suitable based on the other's could be circular reasoning.

¹⁷ If the assessment finds that a tool is appropriate but that there are further comments and recommendations to bring it in-line with best practices, the assessment provides a qualified opinion, e.g. the tool is not inconsistent with generally accepted standards for a macro-fiscal framework, but analysts should review its use and explore other options that may be better practice.

Table 3.2. The SFC's methodological approaches were assessed to be appropriate

Activity	Model	Opinion	
Monitoring (first four quarters)	ARIMA-X and ad hoc SGGEM adjustments	Appropriate	Unqualified
Medium-term economic forecasting	SGGEM	Appropriate	Qualified
Medium-term fiscal forecasting:	Income tax	Appropriate	Unqualified
	Income tax behavioural responses	Appropriate	Unqualified
	VAT (Value added tax)	Appropriate	Unqualified
	Non-domestic rates	Appropriate	Unqualified
	Land and Buildings Transaction Tax	Appropriate	Unqualified
	Non-residential LBTT	Appropriate	Unqualified
	ADS (Additional Dwelling Supplement)	Appropriate	Unqualified
	First time buyer relief and ADS increase	Appropriate	Unqualified
	Non-residential LBTT	Appropriate	Unqualified
	Scottish Landfill Tax	Appropriate	Unqualified
	Air Passenger Duty	Appropriate	Unqualified
	Carer's allowance and supplement	Appropriate	Unqualified
	Discretionary housing payments	Appropriate	Unqualified
	Best start grants	Appropriate	Unqualified
	Best start foods	Appropriate	Unqualified
	Funeral expense assistance	Appropriate	Unqualified
	Employability services	Appropriate	Unqualified
	Attendance Allowance	Appropriate	Unqualified
	Cold Weather Payments	Appropriate	Unqualified
	Disability Living Allowance (Child)	Appropriate	Unqualified
	Disability Living Allowance (Working age)	Appropriate	Unqualified
	Disability Living Allowance (Pensioners)	Appropriate	Unqualified
	Severe Disablement Allowance (SDA)	Appropriate	Unqualified
	Winter Fuel Payments	Appropriate	Unqualified
	Industrial Injuries Benefit	Appropriate	Unqualified
	Personal Independence Payment	Appropriate	Unqualified
Assessment of reasonableness of official numbers	Ad hoc spreadsheet analysis	Appropriate	Unqualified
Forecast evaluations	Ad hoc spreadsheet analysis	Appropriate	Unqualified

Source: Authors, 2019

128. In addition to the overall appropriateness of the SFC's methodological approaches, the assessment found that the SFC excels in several areas.

129. The SFC has found **practical and creative workarounds to limited Scottish statistics**. The Scottish economic accounts are still in their infancy, with short time horizons and less-than comprehensive coverage of the economic indicators available to other IFIs. Similarly, many of the other economic, financial, and social statistics that other jurisdictions take for granted are not available. The SFC has found methodologically sound and creative solutions to surmount these limitations in practice.

130. The Scottish Government's fiscal framework and the institutional position of the SFC is a uniquely challenging environment for a forecaster. Given the SFC's mandate to examine only a subset of Scottish tax and spending responsibilities, the SFC has so far done a remarkable job of **maintaining consistency** in the macro-fiscal framework, both between the Commission's economic, tax, and spending models, as well as the OBR's policy costings and the complete fiscal stance of the Scottish and UK Governments more generally.

131. The SFC has demonstrated **sophisticated modelling of smaller revenue sources and spending programmes**. Many smaller tax and spending areas receive more thorough attention and analysis than would be the case at peer IFIs, given their relative fiscal immateriality and an IFI's limited analytical resources. These include the areas related to devolved taxes such as LBTT and Scottish Landfill Tax (SLfT), and spending programmes such as Funeral Support Payments and Winter Fuel Payments.

132. The SFC's extensive use of **open-source software** in areas other than their macroeconomic modelling is well ahead of the curve of their IFI peers and places them in an excellent position to lead by example on transparency.

3.4. Key issues for SFC outputs

133. This section examines key issues identified for SFC outputs, including serving the needs of different audiences, challenges around social security forecasting, ensuring a proportional approach, the presentation of risks and uncertainty surrounding the forecasts, and the scope of the SFC's analysis. It also compares the SFC's key report, Scotland's Economic and Fiscal Forecasts, with similar reports published by OECD peers.

3.4.1. Serving the needs of different audiences

134. Since the SFC is the official forecaster for Scotland its reports are of interest to different audiences for different reasons, including the Scottish Government, the Scottish Parliament, the UK Government, the OBR, economists, academia, media and the public at large. Given the diversity of its audiences, the SFC's reports must present several layers of narrative, starting with presenting a summary of general developments in a language that is easy to understand by the wider public, and moving to details that are highly technical.

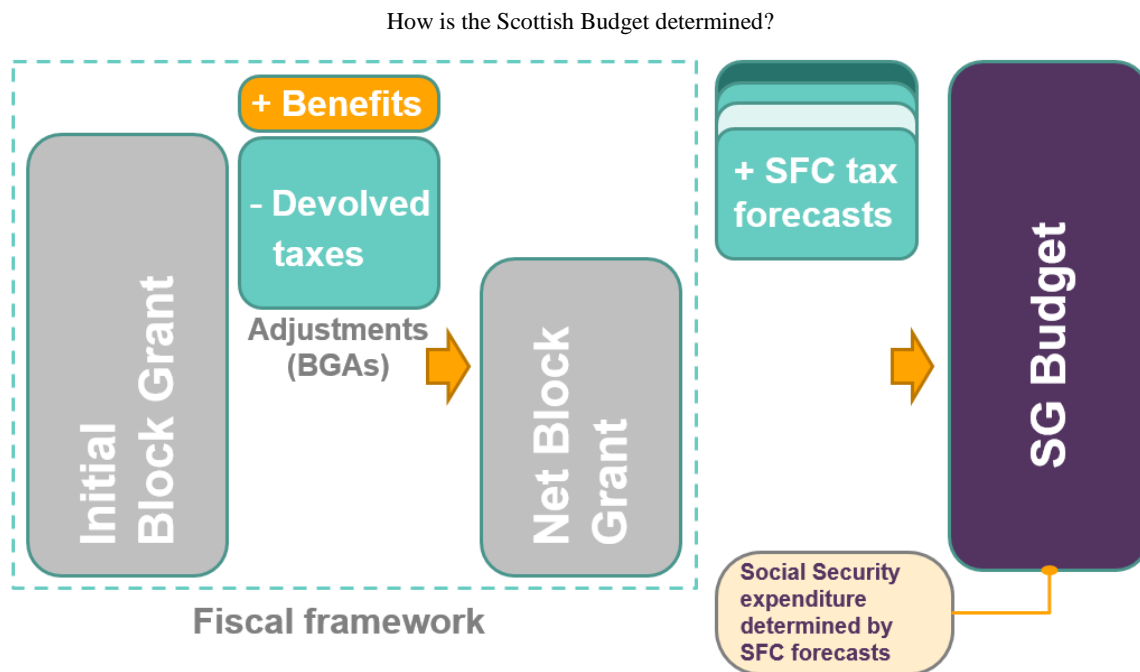
135. The SFC's reports are clearly written and comprehensive.¹⁸ They include infographics (see Figure 3.2) and a considerable amount of background information about

¹⁸ The SFC has worked hard to make reports more accessible. As discussed in Chapter 5, based on stakeholder feedback the SFC has made an effort to significantly reduce the length of key reports such as the SEFF.

the institution and its mandate as well as high-level information on the Scottish Government's fiscal framework.

136. Notwithstanding, the SFC might consider introducing more explainer material on its website so that it serves as a knowledge hub for matters relating to the Scottish Government's fiscal framework. For example, the OBR have an information page on its website called "Tax by tax, spend by spend". Interested parties can look up each tax and benefit and find a description of the measure, recent trends, the latest forecast, latest outturn data, forecast methodology, previous forecasts, policy measures from previous budgets, and ready reckoners among other information (UK OBR, 2019^[14]). Providing increased background material on its website might also allow the SFC to remove similar information from Scotland's Economic and Fiscal Forecasts, and thus achieve further streamlining of this publication.

Figure 3.2. SFC's infographic on the Scottish Government's fiscal framework



Source: (Scottish Fiscal Commission, 2019^[15])

137. In addition, more technically focused stakeholders indicated that they would welcome more occasional papers from the SFC, for example, on topics such as potential reconciliation scenarios brought about by different forecasts from the SFC and the OBR, and structural differences between the UK and Scotland and how these might affect tax revenues and spending.

138. Some stakeholders also expressed the view that the SFC could further enhance the narrative behind its macroeconomic forecast, for example adding to the discussion on the economic rationale behind the forecast results, including an increased integration between the supply side and the demand side approaches, which at the moment are completely separate from one another. A discussion of the demand side approach to GDP could be seen

as particularly crucial at the present economic juncture when falling business investment is having a significant impact on growth.

3.4.2. Challenges around social security forecasting

139. Social security accounts for an increasing proportion of the Scottish Budget, with additional benefits to be devolved to the Scottish Parliament by April 2020. The Scottish Government is taking this opportunity to change the social security system and launch new benefits in Scotland.

140. The SFC's initial experience in forecasting new social security benefits has been challenging. There are general challenges associated with forecasting social security due to the number of benefits and the complexities of each (e.g., different eligibility criteria), even before the impact of any policy changes are taken into account. Forecasts for new benefits can be hard to predict given uncertainties around take up rates, and the SFC is not always fully aware of the Scottish Government's policy plans that might impact take up. For example, when the Scottish Government launched the new Best Start Grant Pregnancy and Baby Payment benefit in December 2018, take up was much higher than expected, partly as a result of the Scottish Government's strong promotion of the benefit on social media. This led to the SFC having to increase its 2019-20 forecast by 67%.

141. The forecasting process is greatly facilitated when the SFC has good knowledge of design choices of the Scottish Government for new benefits policy. However, officials across the Scottish Government are still uncertain about the most appropriate point in the policy development cycle with which to engage with the SFC on policy costing.

142. Both the SFC and the Scottish Government are taking steps to improve coordination around social security forecasting. To improve interaction between the Scottish Government and the SFC, the SFC has regular monthly meetings with the Social Security Strategic Finance Team. This provides an opportunity to exchange updates on social security developments and jointly agree approaches to any issues arising. The SFC and this team have also had informal "lessons learned" sessions and have developed a list of actions to take forward ahead of the next round of budget forecasts.

143. More systematic and better information sharing between the SFC and the Scottish Government on social security will be very important given that the devolution of remaining social security benefits means an increase in the fiscal risks to which the Scottish Government's budget is exposed. Early involvement helps the SFC to better identify its information needs for forecasting each benefit and reduces the chance of forecasting error that could give rise to cash-flow issues for the Scottish Government.

3.4.3. Ensuring a proportional approach

144. The SFC is responsible for costing and forecasting a range of different taxes and social security benefits with differing absolute values and levels of uncertainty. For example, income tax accounts for a large amount of Scottish tax revenues, but forecast errors are expected to be lower in percentage terms than those for smaller value social security benefits that are being newly designed and implemented in Scotland.

145. The SFC would ideally work on reducing error across all its costings and forecasts. Indeed, there is considerable pressure on the SFC to do so in order to demonstrate Scotland's institutional and technical readiness for greater devolved authority over taxation and social security programmes. For this reason, smaller taxes and benefits, such as SLfT,

benefit from sophisticated modelling and receive more thorough attention and analysis than would be the case at peer IFIs, given their relative fiscal immateriality.

146. However, now that the SFC is more established, a key question is where to dedicate the most effort. In taking these decisions, the SFC should not lose sight of the underlying properties of the tax or benefit, and its data. For example, if a small value tax or benefit is fundamentally unpredictable the SFC may be ill advised to invest significant resources in modelling it. Stakeholders suggested that they support a pragmatic and proportional approach by SFC. This implies that the SFC should dedicate greater resource to areas that are more important for the Scottish Budget.

3.4.4. Presentation of risks and uncertainty

147. Economic activity is driven by several factors that are difficult to forecast, making the presentation of risks and uncertainty a key challenge for forecasters. This is particularly demanding for official forecasting bodies like the SFC, since economic forecast errors have a direct implication for the budget, particularly on the tax revenue side. The SFC is aware of this constraint and its reports include a section on the limitations of its forecasting stating that “Forecasts cannot perfectly predict the future; the Commission’s forecasts aim to present a balanced pathway through a broad range of possible outcomes”. Furthermore, the SFC quotes the OBR saying, “the likelihood that any given forecast will turn out to be accurate in all respects is essentially negligible”. To communicate the uncertainty that surrounds forecasts, the SFC tests the sensitivity of their forecasts against alternative scenarios and identifies risks factors to its forecasts. The SFC also publishes a Forecast Evaluation Report each year.

148. The SFC’s approach to uncertainty is appropriate. The SFC tests the sensitivity of its forecasts to alternative economic scenarios, namely, high and low variants for migration, employment, productivity and hours worked. In its alternative scenarios, the SFC does not take into account different assumptions regarding the demand side of the economy, such as higher/lower consumption, investment or net trade. This is the result of the SFC’s economic models being mostly supply side driven. Better integration between the supply and demand sides could enable consideration of demand-led shocks and enhance the presentation of risks.

149. In contrast to many peers, the SFC does not yet use fan charts to communicate the uncertainty surrounding the forecasts. Currently there is not enough historic forecast error to produce them. This lack of a sufficiently long series of forecast errors is a shared problem with other newly established forecasters. A common technique that the SFC might consider is to produce in-sample forecasts or even pseudo real-time forecasts as a way to overcome this constraint and start producing a fan chart to communicate the uncertainty surrounding the central value of the forecast.

150. Any forecast exercise relies on past data to project the future. In the case of Scotland, the availability and accuracy of historic data remains challenging. In its Forecast Evaluation Report published in September 2018, the SFC highlighted the effect that revisions to historic data can have on forecasts, noting difficulties around large revisions to economic data, and newly available data on outturn income tax liabilities in Scotland, which had a significant effect on the accuracy of SFC forecasts (Scottish Fiscal Commission, 2018^[16]).

151. Statistical data revisions are unavoidable, if not usually of this magnitude. When assessing the performance of its GDP forecasts, the SFC might consider using real-time

data (first or second release for a particular quarter of data) along with the ‘latest’ vintage of data that it currently uses. In the Scottish context, it might be too demanding to expect a forecast based on past data and surveys to perform better than the first or second statistical release based on actual outturn data.

3.4.5. *Scope of the SFC’s analysis*

152. The SFC forecasts of the devolved taxes are 44% of total Scottish Government funding for the fiscal year 2019-2020. On the expenditure side, the SFC only forecasts devolved social security benefits, which currently represent 1.3% of total spending (although this will increase significantly in April 2020). The SFC has no role in forecasting the major spending items such as Health or Communities and Local Government.

Table 3.3. SFC forecasts weight on total Scottish Budget proposal for 2019-2020

	£m	% of total
Total Scottish Government Funding, of which:	34.25	100%
<i>SFC forecast for Total Tax</i>	15.21	44.4%
Total Spending Scotland (excl. AME), of which:	34.64	100%
<i>SFC devolved Social Security benefits forecast, total</i>	0.46	1.3%
<i>Social Security and Older People</i>	584.9	1.7%
<i>Health and Sport</i>	14.222.8	41.1%
<i>Communities and Local Government</i>	9.011.8	26%

Note: In 2019-20, the SFC’s social security forecast covers Carer’s Allowance (including Supplement), Discretionary Housing Payments, Employability Services, Best Start Grant, Best Start Foods and Funeral Support Payment.

Source: (Scottish Fiscal Commission, 2018^[15]) and (Scottish Government, 2018^[17]).

153. The Scottish Budget must be balanced and the Scottish Government is very constrained in its ability to borrow. Consequently, the usual problems of medium to long-term debt sustainability caused by an excessive accumulation of budget deficits do not apply to Scotland. However, the Scottish Budget is subject to considerable pressures on the expenditure side caused by population ageing and rising healthcare costs (health spending is already more than 40% of the total Scottish budget) (SPICe, 2018^[18]). The ability to find additional revenue through taxation is also limited by factors such as the mobility of high-income taxpayers in the UK territory. As a result, there are considerable fiscal risks to the Scottish budget in the longer-term. Stakeholders expressed a view that they would like to see in-depth analysis that better captures the scale of these risks. In addition, the BPRG recommended that budget scrutiny should have a long-term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services.

154. Given the stated need, the SFC may wish to consider undertaking initial work in this area in coming years. Although it is not an explicit part of the SFC’s mandate, work in relation to fiscal risks and long-term fiscal sustainability could be incorporated under the SFC’s ability to undertake proactive work relating to “fiscal factors”. Indeed, the majority of OECD IFIs undertake work on long-term fiscal sustainability as part of their regular work programme (OECD, 2019^[19]). A number of OECD IFIs undertake this work at their

own initiative, including the Lithuanian Budget Policy Monitoring Department, Spain's AIREF and Luxembourg's National Council of Public Finances.

155. The SFC already publish an assessment of fiscal risks pertinent to its tax and benefit forecasts and the Scottish Budget in its key publication, Scotland's Economic and Fiscal Forecasts. However, the SFC may wish to consolidate this information, and further augment it with more in-depth longer-term analysis of the risks facing the full Scottish Budget, in a standalone publication that eventually becomes comparable to other IFIs assessments of fiscal risks and long-term fiscal sustainability (see Box 3.1 for the example from Portugal). This will be challenging for the SFC in the context of the extremely sensitive political backdrop set out in Chapter 1. However, stakeholders are keen that fiscal risks are not ignored through fear of political recourse.

Box 3.1. Publications on fiscal risks and public finance sustainability in Portugal

The Portuguese Public Finance Council (CFP)

The CFP has recently launched a new publication called "Fiscal risks and public finance sustainability", which will be updated every two years.

In this report, the CFP takes as a starting point its most recent medium-term projections for the main macroeconomic and fiscal variables under a 'no policy change' scenario and analyses the fiscal risks Portuguese economy faces. The CFP focusses its risk analysis in five areas: macroeconomic performance, public revenue and public expenditure, contingent liabilities and public debt.

For the purposes of this publication, risk is understood as a measure of uncertainty regarding the possible deviation from the expected result of a variable, which may be positive or negative. Sustainability is understood as the ability of the State to sustain the commitments made with its citizens and creditors.

The CFP see recognition of these risks and the attempt to regularly identify them and quantify their impact as essential to the sound management of public finances, since this is the only way to create the conditions for fiscal policy to mitigate the effects of economic fluctuations and thus increase the resilience of the economy to shocks.

Source: (Portuguese Public Finance Council, 2019_[21])

3.4.6. Comparing the SFC against established peers

156. Despite differences in mandate and resources, it is possible to compare the SFC's main report – Scotland's Economic and Fiscal Forecasts – with similar reports by the Canadian PBO, IFAC, the Netherlands CPB, the OBR and the US CBO (see Table 3.4). It can be seen that:

- The chapter structure of Scotland's Economic and Fiscal Forecast report is in line to similar publications across peer institutions. Most similar publications run to a comparable length, however, the Canadian PBO provides a good practice example of a very streamlined publication.
- The SFC report tends to present fiscal figures in absolute terms, but peer reports often provide a mix of absolute and relative information. The presentation of information in relative terms helps contextualise the information in a way that is recognised by the

wider public. The SFC may wish to consider expressing some variables, such as income tax revenue, as a rate of change or as a percentage of GDP so that the significance of these figures is clearly understood.

- In terms of the content, the SFC and OBR reports are more “text-heavy” than those by peer institutions. The SFC may wish to look at consolidating some of the background narrative in explanatory material on its webpages, or accompanying the report. It could also facilitate skim reading through “bolding” the first sentence of each paragraph in its summary, as is done by IFAC, the CFP and the Netherlands CPB.
- In addition, the SFC and the OBR reports are the only ones amongst this selection that have executive summaries whose number of pages go into double figures (11 pages for the SFC, although this has been reduced compared to their previous reports, and 14 pages for the OBR). A shorter executive summary along the lines of that produced by peers, such as the Canadian PBO (4 pages), IFAC (6 pages) or the US CBO (6 pages), may help better convey the key messages to the public at large.
- The SFC supplement its report with additional materials tailored to different audiences, although these are spread across different webpages. A good example is provided by IFAC who, on the same webpage as its publication, provide; an embedded video of the IFAC Chair presenting the report, a summary report as a separate document, a data pack, the press release, a presentation of the report, the Minister’s response and an online summary of key messages.

Table 3.4 - Comparison of economic and fiscal reports across OECD IFIs

	Report	Chapters	Pages	Notable features	Supporting documents
Scottish Fiscal Commission	Scotland's Economic and Fiscal Forecasts	Introduction, Economy, Fiscal overview, Tax, Social security	136	Presents significant background information, includes narrative around forecasts of each tax and benefit, more "word-heavy" than peer publications, provides comparisons with OBR forecast.	Summary of report, Infographic, Charts and tables, Log of contact, Press release, Media briefing, Presentation slides, Speaking notes.
Canadian PBO	Economic and Fiscal Outlook	Executive summary, Economic outlook, Fiscal outlook, Budget 2019: Key issues for Parliamentarians	54	Economic outlook includes section on economic developments in Canada. Very concise report, each page deals with one topic, with one graphic and supporting text.	Online summary, Data
Irish Fiscal Advisory Council (IFAC)	Fiscal Assessment Report	Assessment of fiscal stance, Endorsement and assessment of the macroeconomic forecasts, Assessment of budgetary forecasts, Assessment of compliance with fiscal rules	176	First sentence of each para in Summary Assessment is bold, facilitating skim reading. Each chapter ends with a section on "Risks", with summary tables showing likelihood and impact. Includes Boxes on topical issues, e.g., Brexit.	Embedded video of report presentation by Chair, Summary assessment, Data pack, Press release, Presentation, Minister's response, Online summary.
Netherlands CPB	Macroeconomic Outlook (MEV)	Summary, The Dutch economy in 2019 and 2020, Budget and purchasing power.	80	Begins with 1 page infographic of the main figures. First sentence of each para in Summary is bold, facilitating skim reading.	Embedded video of forecast, Press release, Infographic, Collected appendices, Related figures.
UK OBR	Economic and Fiscal Outlook	Executive summary, Developments since the last forecast, Economic outlook, Fiscal outlook, Performance against the Government's fiscal targets	205	Foreword identifies shortcomings in forecast process, comparison with external forecasters is provided, more "word-heavy" than peer publications.	Executive summary, Charts and tables, Supplementary tables, Long-term economic determinants data, Log of substantive contact, Press notice, Presentation slides, Speaking notes.
US CBO	Budget and Economic Outlook	Deficits and debt, The economic outlook, The spending outlook, The revenue outlook, Estimated budgetary outcomes under alternative assumptions about fiscal policy.	176	Includes 1 page "At a glance" summary of the report and there is also a 4-page "Visual summary of the report". Short paragraphs. Includes Boxes on recent economic events, e.g., changes in trade policy.	Online summary, Data, Visual summary, Narrated presentation, Budget data, Economic data, Baseline projections

3.5. Conclusions and recommendations

157. The SFC has sole responsibility for producing official, independent macroeconomic and fiscal forecasts for Scotland. The tools that the SFC uses to deliver its mandate were evaluated against a technical assessment framework for IFIs developed by the OECD. Its models and methods were judged to meet the criteria for an acceptable macro-fiscal planning framework. Stakeholders should bear in mind that even the most appropriate tools are constrained by the underlying volatility and inherent unpredictability of economic and financial data and so can give rise to forecast errors.

158. The only tool for which a qualified opinion of appropriateness was necessary is the SFC's medium-term economic forecasting tool. However, this is in the process of being replaced, bringing aspects of its ownership, communication, and transparency more in-line with practices at longer-established IFIs. It is good practice for an IFI to frequently, if not perpetually, review and improve its tools and workflows. This is particularly true in Scotland and the SFC's institutional context, where data and statistical workflows are still emerging.

159. The SFC has only been operating on a statutory basis for two years and so it is difficult to make a full assessment of its outputs relative to peer IFIs. However, outputs so far are already seen as rigorous, well presented and comprehensive. One difficulty for the SFC is ensuring that its outputs meet the needs of multiple stakeholders with differing levels of background knowledge. Further streamlining of material in the executive summary of reports, together with the development of informational webpages, occasional papers and supporting documents will enable the SFC to continue to meet the needs of both technical and non-technical users.

160. As a new institution, the SFC has been under pressure to prove its capabilities in delivering its tax and benefit forecasts. As new areas were devolved, the SFC developed more detailed models for forecasting smaller tax and spending areas than peer IFIs might have done, given their relative fiscal immateriality. Now that it is more established, the SFC should dedicate greater resources to areas that are more important for the Scottish Budget.

161. The area of social security forecasting has been particularly challenging for the SFC, even more so since the Scottish Government has introduced new benefits which are typically difficult to forecast. The quality of some of the SFC's initial forecasts have been hampered by the lack of complete information about the Government's plans in this policy area. Both the SFC and the Scottish Government are taking steps to improve information sharing, including through holding regular monthly meetings. More systematic and coordinated information sharing from an earlier stage should reduce the chance of forecasting error that could give rise to cash-flow issues for the Scottish Government.

162. The SFC's approach to uncertainty is appropriate. Despite its short forecasting record, the SFC could look to innovative ways in which it might start producing fan charts to communicate the uncertainty surrounding the central value of its forecasts.

163. One of the things that makes the SFC different from its peer institutions is that the coverage of its fiscal forecasts is limited to devolved taxes and social security benefits. However, rising costs in large areas of spend, such as health, which are not covered by the SFC, mean that stakeholders are calling for a focus on risks and long-term fiscal sustainability in relation to the full Scottish Budget. In addition, the BPRG recommended that budget scrutiny should have a long-term outlook and focus more on prioritisation,

addressing fiscal constraints and the impact of increasing demand for public services. Given the stated need, the SFC may wish to consider undertaking initial work in this area in coming years as part of its ability to produce reports on any “fiscal factor”. This type of assessment is undertaken by the majority of OECD IFIs.

Chapter 4. Special focus: operating as a subnational IFI

4.1. Introduction

164. The SFC has a key role in the operation of the Scottish Government's fiscal framework agreed by the Scottish and UK Governments. As a subnational IFI, the SFC is dependent on the cooperation of a number of UK stakeholders for information necessary to deliver its statutory functions. Across the UK Government, this includes HM Treasury, HM Revenue & Customs, and the Department for Work and Pensions. Another key UK stakeholder is the OBR. However, these institutions are dealing with a wide range of demands, which may mean that providing information to the SFC is not necessarily a priority. This special chapter assesses the extent to which UK stakeholders work effectively with the SFC, and how inter-institutional cooperation might be strengthened.

165. A key issue for the SFC has been the preparedness of UK Government departments for providing statistical information relating to new taxes or benefits becoming devolved. To help overcome this, there is the potential for HM Treasury to play a greater role in coordinating the implementation of the Scottish Government's fiscal framework on behalf of the UK Government. A further issue is that the SFC does not benefit from statutory access to information from UK Government departments and public bodies. Legislative provisions in this regard would greatly support the SFC in its work.

4.2. Inter-institutional cooperation with UK stakeholders

4.2.1. HM Treasury

166. HM Treasury is the UK Government's economic and finance ministry and the "guardian" of the Fiscal Framework Agreement on behalf of the UK Government. HM Treasury has a Devolution Team, and this team has spent some time interacting with key stakeholders at HMRC and DWP on the implementation of the fiscal framework.

167. Although the fiscal framework agreement sets out an expectation that there will be regular communication between the UK Government and the SFC on the fiscal framework and its operation (UK Government and the Scottish Government, 2016^[21]),¹⁹ the SFC does not benefit from regular direct engagement with the Treasury. Communications between HM Treasury and the SFC have often been relayed through the Scottish Government. A challenge with this arrangement is that it does not fully recognise the independent status of the SFC from the Scottish Government.

168. There would be benefit in more regular direct engagement between HM Treasury and the SFC. This would not preclude the SFC from approaching UK Government departments directly, but would provide the SFC with a key interlocutor at the UK Government to whom it could direct overarching inquiries relating to implementation of the fiscal framework, who could encourage UK departmental stakeholders to assist the SFC in relation to their requests, and who could support with troubleshooting, e.g., in relation to access to information. As part of a strengthened relationship with HM Treasury, the SFC

¹⁹ The fiscal framework agreement states "There should be ongoing engagement between UK government officials and Scottish Government officials and the Scottish Fiscal Commission over development and peer support around forecasting of tax receipts and devolved benefit expenditure."

could gain greater awareness of the work of the UK Government and its departments with regard to fiscal devolution. It would also allow HM Treasury to strengthen its role in centrally coordinating support for the implementation of the fiscal framework across the UK Government.

169. The development of a MoU between the SFC and HM Treasury would help clarify and further strengthen the relationship between the institutions. The fiscal framework agreement recognises that MoUs between bodies that perform the duties outlined in the agreement will be required to support its effective implementation and operation. A MoU would also serve a useful purpose in setting out UK Government-wide information sharing requirements relating to the fiscal framework, as originally envisaged in Annex C of the fiscal framework agreement, which covers its operation and governance (UK Government and the Scottish Government, 2016^[21]).

170. Another key responsibility of HM Treasury is communications in relation to the fiscal framework at the UK level. Some stakeholders expressed concern about the political nature of some of HM Treasury's recent communications and their potential to obfuscate wider understanding of the fiscal framework (see example provided in Box 4.1). Given the complexity of the fiscal framework, stakeholders see it as particularly important that the Scottish and UK Governments communicate developments in a way that is aligned with the UK Code of Practice for Statistics and promotes greater clarity around the fiscal arrangements.

Box 4.1. HM Treasury press release on income tax reconciliations for Scotland

In July 2019, there was an issue in relation to the tweet and press article by the then Chief Secretary to the Treasury that followed the publication of HMRC statistics on Scottish income tax receipt outturn data. The Scottish Government asked the UK Statistics Authority to consider the communications, arguing that they were inaccurate. The UK Statistics Authority agreed with the Scottish Government and called for improvements in HM Treasury's presentation of statistics related to the Scottish Government's fiscal framework in line with its Code of Practice for Statistics.

Source: (UK Statistics Authority, 2019^[22]).

4.2.2. HM Revenue and Customs

171. HMRC is the UK Government department responsible for administering taxes. It also has a role in modelling and forecasting UK and Scottish tax revenues on behalf of the OBR. In relation to the Scottish Government's fiscal framework, HMRC's role is to estimate the Scottish share of UK income tax and VAT. Tax information from HMRC is also used by the SFC and the OBR in the production of their tax forecasts. It is important that the data the SFC uses for its tax forecasts contain the same details, and are of the same quality, as those used by the OBR. Otherwise, there could be significant differences between the two forecasts, resulting in adjustments to the block grant that arise from data differences.

172. There are a number of areas where engagement, collaboration, and sharing of information is important for both the SFC and HMRC. The SFC and HMRC established their first MoU in November 2017 and this was updated in June 2019. The MoU sets out guidelines in relation to sharing data and information, developing data sources for

modelling taxes in Scotland and developing models and analysis of taxes in Scotland. It also sets out principles for engagement between the two institutions (Scottish Fiscal Commission and HM Revenue and Customs, 2019^[23]).

173. Although the MoU is an important and useful building block in ensuring constructive relations between the SFC and HMRC, there is not consistent awareness of its existence and/or content among HMRC stakeholders. More could be done to raise awareness of the MoU at the analyst level, including making it clear how it relates to different areas of work. Given the high-level nature of the MoU, some called on future versions to include more comprehensive information on data requirements, and associated timelines

174. The SFC liaise with separate teams in HMRC with regard to income tax and VAT. On the income tax side, HMRC communicate directly with the SFC, the OBR, the Scottish Government and the Welsh Government through the “Devolved Working Group on Income Tax”, which it leads. The working group has helped develop a common understanding of the roles and responsibilities of each institution in relation to the devolved income tax powers. The SFC, as well as the Scottish and Welsh Governments, are able to commission work related to sub-national income tax data through this working group. Any issues relating to the income tax data are also raised through this group.

175. Although the SFC had some initial challenges in accessing the data it requires from HMRC for its income tax forecasts, there has been considerable improvement in the range of data available in recent years. The SFC’s Statement of Data Needs 2019 noted that the SFC’s top priorities for income tax data from HMRC outlined in its 2018 Statement have been delivered.

176. The SFC would now like HMRC to provide more information on Real Time Information liabilities data and the current income tax liabilities revision process (Scottish Fiscal Commission, 2019^[10]). While annual revisions would help ensure the SFC’s income tax forecasts are more accurate, they could have significant resource implications for HMRC. Revisions can be of different scales in different years and, in the end, HMRC prioritises undertaking revisions when they judge that these are likely to be of significant value. The current published policy is that the income tax liabilities are produced once and not subsequently revised, as agreed between HMRC, HM Treasury and the Scottish Government when income tax was originally devolved to Scotland. It would be helpful to the SFC and broader stakeholders if this revisions policy was reconsidered.

177. Once VAT is fully assigned to Scotland, it would be the second largest source of tax revenue for the Scottish Government. Engagement between the SFC and HMRC on the VAT side is less developed. This is partly because the assignment of VAT revenues to the Scottish budget is not planned to take place until 2020-21, and even then, it is likely that this will be subject to delay due to complications in calculating the Scottish share.²⁰ Complications relate to the fact that there is no outturn data for VAT and so HMRC must instead use an estimation model to calculate the Scottish share. HMRC has published a

²⁰ On 15 May 2019, the Scottish Government’s Cabinet Secretary for Finance, Economy and Fair Work sent a letter to then Chief Secretary to the UK Government Treasury asking her “...to seriously consider the case for a delay to the implementation of VAT assignment and review the case at the time of the fiscal framework review”. There has been no formal response from the UK Government to this request, so the status of VAT assignment is still unclear.

methodological paper relating to its calculation of the Scottish share of VAT, and seeks to publish more details on this in 2020.

178. In the absence of any formal announcement of VAT assignment being delayed, the SFC has had to begin developing capacity in forecasting VAT to fulfil its mandatory duties. There have been some initial challenges for the SFC in obtaining the information it needs from HMRC to do this due to communication issues. A subsequent “after action review” has helped ensure that both parties now have a clearer understanding of each other’s needs going forward and there will be greater clarity on the timing of these requirements.

179. A key issue that remains for the SFC in terms of obtaining the information it needs is that HMRC has delayed its publication of 2017 VAT estimates, stating that it needs time for further quality assurance. The SFC would prefer that the figure is released - with appropriate caveats - in time to coordinate with its forecasting calendar, and later revised if necessary. In its Statement of Data Needs 2019, the SFC stated “In our September 2018 Statement we called for timely publication of VAT data that was coordinated with the timing of Scottish fiscal events. It is disappointing that a year on the publication of VAT assignment data is still irregular and uncertain” (Scottish Fiscal Commission, 2019_[10]).

180. HMRC, HM Treasury, and the Scottish Government meet weekly by phone as part of their “VAT Assignment Working Group”. Given that this is a policy-orientated group, and a formal decision has not yet been taken on when VAT assignment will commence, Scottish and UK Government officials jointly agreed that it is not appropriate for the SFC to join this group, preferring to set up a separate analytical user group. The value gained through the cooperative working arrangements on the income tax side suggest that it would make sense to set up a similar arrangement on the VAT side. The SFC could add value to group discussions through being involved from this early stage. Its forecasting role means that it is often looking further ahead than other stakeholders, and so the SFC’s involvement could help identify issues that would otherwise not be noticed until later on.

4.2.3. Department of Work and Pensions

181. The DWP is currently responsible for administering most social security benefits in the UK. As the package of social security benefits is initially devolved to the Scottish Parliament, the DWP will still administer the benefits and forecast the workload associated with that, but this will phase out over time. The Scottish Government is launching new benefits, and the administration of these will migrate to Social Security Scotland starting in 2020. The Scottish Government is committed to completing this by 2023-2024.

182. The SFC has responsibility for forecasting expenditures on devolved social security benefits. When the SFC first started approaching the DWP with data requests in relation to forecasting benefits it was difficult to obtain the information required. Following publication of the 2018 Statement of Data Needs by the SFC, there was media pressure on the DWP to be more forthcoming in sharing information with the SFC. In giving oral evidence to the Scottish Parliament’s Finance and Constitution Committee around the same time, the SFC reported that it had had to use freedom of information legislation to get the data it required from the DWP.

183. Shortly afterwards, in January 2019, the DWP set up a team on devolution analysis to support the Scottish Government and the SFC. There are now three FTEs in the team. Before this team was set up, there was not a concrete process for the DWP dealing with SFC data requests. However, the new team has brought a more coordinated approach through bringing together the analytical community working on the devolution of social

security benefits across the DWP. The team has hosted the SFC at their offices in Newcastle in order to arrange meetings with their analysts and share information on forecasting methodologies. These new arrangements have brought about a marked improvement in the DWP's effectiveness in supporting the SFC's needs.

184. In forecasting expenditures associated with different benefits, a key issue is the disaggregation of the Scottish caseload. This is easier for some benefits (such as Personal Independence Payment which is a relatively new benefit) than others (particularly older benefits). The DWP's devolution team is also responsible for looking at caseloads in Scotland, and trying to model these. As part of this, the DWP are undertaking a mapping exercise that looks at what proportion of Scottish benefits for which they readily have information available on caseloads. The DWP are useful in helping the SFC understand what information and data is available in this regard. In some instances, data can be shared with the SFC, but in other cases, confidentiality issues preclude this. To overcome this, the DWP has been proactive in offering SFC analysts to come to their offices to see the data and obtain the analysis that would be most helpful for them. The SFC are considering whether this offer can be taken up given the significant staffing commitment it would require.

185. The DWP do not find the SFC's requests overly onerous, particularly now that the SFC has a clearer idea of what type of information is available, and what is not. The DWP and the SFC have agreed to share forecast summaries after each forecast round, which also helps negate some of the original information requests. A longer-term solution for the SFC to have direct access to DWP data is also being investigated.

186. In order to strengthen the effectiveness of the working relationship, the SFC and the DWP signed a MoU in April 2019. This is high-level, but sets out the information that the two institutions should share with each other to fulfil their functions, restrictions associated with this information and the respective roles and responsibilities of each institution. It is anticipated that the MoU will be subject to review over time (Scottish Fiscal Commission and Department for Work and Pensions, 2019^[24]).

4.2.4. UK Office for Budget Responsibility

187. The OBR is the IFI for the UK. The OBR's remit requires it to report on the status of the whole of the UK's public finances. This includes a five-year fiscal forecast, produced at least twice a year, across all relevant receipts and spending categories at the national, devolved and local government levels, including Scotland.

188. The OBR's forecasts of UK Government receipts and expenditure play a critical role in the Scottish Government's fiscal framework in that they are used by the UK and Scottish Governments in the calculation of the BGAs.

189. Although there is overlap between the functions of the OBR and the SFC, the two institutions vary considerably, for example, in terms of the scope of their work, their resourcing, and their leadership arrangements.

190. As "sister" institutions, the SFC and the OBR have generally enjoyed good relations from the outset. The institutions also have a statutory duty to co-operate with each other, and this is reaffirmed in the fiscal framework agreement. To help strengthen cooperation, the two institutions agreed a "shared principles" document in 2017. Building on the "shared principles" document, the SFC and the OBR signed a formal Memorandum of Understanding in January 2019. This outlines the respective responsibilities of both institutions, how the institutions coordinate with regard to the forecast process, how the

institutions will work together to improve forecasts and the procedures for revisions to the MoU (Scottish Fiscal Commission and Office for Budget Responsibility, 2019_[25]).

191. In the absence of anyone to coordinate the SFC's interactions with the UK Government, the OBR has at times acted as a facilitator to assist the SFC in establishing relevant contact points and arranging meetings with departments such as HMRC and the DWP. Where possible, the OBR has also encouraged UK departmental stakeholders to assist the SFC in relation to their requests as ultimately this helps ensure smooth functioning of the fiscal forecasting process. In return, the SFC also supports the OBR in its engagement with Scottish stakeholders.

192. The SFC and the OBR have a productive working relationship with regular cooperation and engagement that supports their respective functions. This includes regularly sharing information on forecast methodologies, data and models and active participation in each other's forecast challenge meetings.

193. Examples of good cooperation between the two institutions include two joint letters that the institutions have sent to the Scottish Parliament's Finance and Constitution Committee. The first letter in December 2018 responded to the Committee's pre-Budget scrutiny and set out their respective roles and differences in their forecast methodologies and data used. The second letter sent in April 2019 responded to queries about forecast errors and differences in their forecasts. In general, when the Scottish Parliament writes to the OBR, the SFC and the OBR write back to the Scottish Parliament on a joint basis. This helps ensure that both institutions are referring to the same figures using the same terms, and helps create a shared sense of understanding of the forecasts that both institutions provide. Both the OBR and the SFC also attended the Scottish Parliament's Finance and Constitution Committee's planning day to do a "show and tell" session, and indicated a willingness to do more of these type of events with other stakeholders.

194. The SFC have regular engagement with analysts at the OBR to ensure the quality of its work. The SFC and the OBR collaborate closely in developing their forecast models, in particular for taxes fully devolved to Scotland. Their close technical collaboration on modelling is illustrated through the fact that the SFC now run the Scottish NDR forecast for the OBR after it provides the SFC with its economic determinants. The SFC has also shared its SLfT model and the OBR use this. The two institutions are in discussions to align their LBTT forecast models. Despite close collaboration on models, both institutions still have different forecasts as they input different judgements to the modelling process and can be working with data released at different times.

195. Differences between the SFC's forecast of Scottish income tax and VAT receipts and the OBR's forecast of UK Government receipts have an impact on tax reconciliations and savings potential, or borrowing needs, of the Scottish Government. A complication is that the OBR undertakes its forecasts in time for the UK budget process, whereas the SFC undertakes its forecasts in time for the Scottish budget process, which takes place a few weeks later. Although the difference is only a few weeks, there is the risk that a large economic event, such as Brexit or a financial crisis, might mean that the assumptions underpinning each forecast fundamentally differ. Although there is little that can be done in these circumstances, in general the SFC and the OBR regularly communicate on methodologies with a view to minimising the inconsistencies that are within their control. Over time, improvements to economic statistics for Scotland may help improve the alignment between the SFC and OBR forecasts. However, the fact that the Scottish and UK Government income tax and VAT forecasts are to be undertaken by different institutions

at different times is viewed by many stakeholders as a poor design feature of the fiscal framework.

4.2.5. UK Statistics Authority

196. The UK Statistics Authority is an independent body at arm's length from government with the objective of promoting and safeguarding the production and publication of official statistics. When the SFC was established, its management were thinking around the issues of public confidence and trust in the value of its outputs, and the SFC decided to voluntarily sign up to the UK Statistics Authority's "Code of Practice for Statistics". In doing so, the SFC has become one of the first UK institutions to voluntarily adhere to the Code. The SFC sets out this commitment in a clear statement on its website.

197. Even although the SFC are producing forecasts, not official statistics, adherence to the Code signals its aspirations to gain high levels of public confidence. An example of the SFC's application of the Code includes its practice of publishing a monthly forthcoming publications email and news story to highlight the month of publication up to a year ahead and the exact date at least six weeks in advance. The SFC has also developed a corrections and revisions policy that allows it to publicise transparently how it will deal with any analytical errors or revisions in its work. At the heart of the SFC's efforts to comply with the real spirit of the Code is user engagement, and in particular responsiveness to user feedback (Scottish Fiscal Commission, 2018^[26]).

198. In a case study of voluntary application, the UK Statistics Authority noted that the Code "allowed it [the SFC] to demonstrate its independence. Furthermore, by being transparent about its methods and quality assurance, as well as the limitations and the judgements made within its forecasts, it has encouraged trust in the value of its outputs" (UK Statistics Authority, 2019^[27]).

4.3. Conclusions and recommendations

199. As a subnational IFI, the SFC is dependent on cooperation of a number of UK stakeholders for access to information that allows it to deliver its legally mandated functions and fulfil its responsibilities set out in the Scottish Government's fiscal framework. Key stakeholders across the UK Government include HM Treasury, HMRC and the DWP. The SFC has agreed MoUs with both HMRC and DWP and this has helped crystallise cooperation between the SFC and these departments. Over time, there might be merit in making these MoU more comprehensive with information on the data requirements of the SFC, and associated timelines.

200. By contrast, relations are under-developed with HM Treasury, the main "guardian" of the fiscal framework on behalf of the UK Government. Over recent years, there have been issues with the preparedness of UK Government departments in providing statistical information relating to new taxes or benefits being devolved. Greater coordination of the implementation of the fiscal framework by HM Treasury, and the establishment of regular direct engagement between HM Treasury and the SFC would help overcome this. This would also greatly assist the SFC in establishing contact points across UK Government departments. Better still, a MoU between HM Treasury and the SFC would strengthen relations and clarify each other's roles in the implementation of the fiscal framework, and the requirements related to that (including UK Government-wide information requirements). Smooth functioning of the SFC's role in relation to forecasting helps

contribute to more effective implementation of the Scottish Government's fiscal framework.

201. Although the SFC can use the Scottish Government to relay messages to the UK Government, a challenge with this arrangement is that it does not fully recognise the independent status of the SFC from the Scottish Government. In the absence of a strong relationship with HM Treasury, the SFC has turned to its sister institution, the OBR, for assistance in engaging with UK Government departments. The support provided by the OBR in this regard has been instrumental in encouraging departments to engage with the SFC and respond to their information requests.

202. Ensuring that the SFC has access to relevant information is essential to the fulfilment of its statutory duties. A key weakness relating to the SFC's legal framework is that it only has a statutory right to information from the Scottish Government and relevant devolved public bodies, with access to UK data reliant on the provisions set out in the Scottish Government's fiscal framework. A UK Government-wide statutory right to access data held by UK Government departments and public bodies would greatly support the SFC's work.

203. The SFC's cooperation with HMRC is more developed in the area of income tax than it is in relation to VAT. This is partly because the devolution of income tax powers to Scotland has already occurred, whereas the assignment of VAT revenues to the Scottish Government is not formally planned until 2020-21. However, the SFC also sits on HMRC's devolved working group on income tax but is not a member of a similar group for VAT. The SFC could add value to group discussions on VAT through being involved from this early stage and – given its forecasting role – helping identifying issues that might not otherwise be noticed until later on.

204. The SFC's cooperation with the DWP has greatly improved since the establishment of the DWP's devolution team. This provides an invaluable central point of contact for the SFC and has helped coordinate the DWP's work in estimating Scottish caseloads for social security benefits.

Chapter 5. Impact

5.1. Introduction

205. Unlike the majority of its peer IFIs, the SFC is Scotland’s official forecaster and as such has a more direct influence on the parameters of the annual budget. Nevertheless, like its peers, the SFC is not a decision-making body and its influence lies in large part on its ability to impact the public debate. As noted by Sunshine (2018), ultimately the value of the work of IFIs “depends not only on the quality of the analysis but also on the effectiveness with which it is communicated” (Sunshine, 2018_[28]). Across the board, stakeholders interviewed by the review team had high praise for the accessibility and readability of the SFC’s work – which they described as “clear”, “fresh”, and “timely” – and for the way the SFC communicates its work. Despite being a small institution, the SFC has invested in its communications from the outset and actively sought feedback on its performance from stakeholders.

206. This chapter assesses the available evidence with regards to the SFC’s potential impact, mainly through reviewing its communications, with a focus on key channels such as media and the parliamentary debate. It also touches on fiscal transparency gains.

5.2. Influence on the public debate

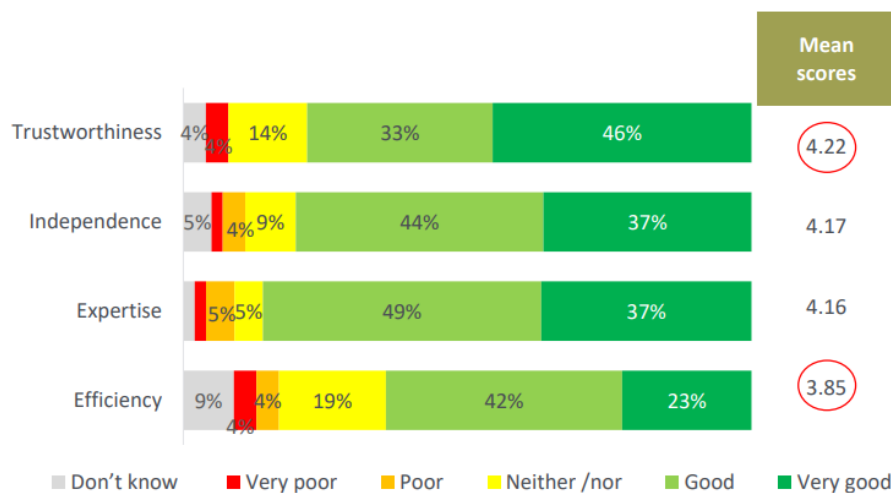
207. In line with good practice, the SFC invested early in communications. Even before it became a statutory body, the SFC reached out to financial and business journalists, and the Chair, who serves as the main face of the organisation, has made herself available for interviews. The SFC Commissioners and Senior Management Team underwent two comprehensive media training sessions and a committee appearance workshop to ensure they could communicate the SFC’s work to a high standard. In response to stakeholder feedback, the SFC also created a permanent communications manager position in 2018.

5.2.1. Stakeholder surveys

208. Part of good communications lies in understanding one’s audience. User engagement is also a key focus of the SFC’s efforts to comply with the UK Code of Practice for Statistics. In the first half of 2018, the SFC commissioned a stakeholder consultation from an independent researcher, Progressive Partnership. This is advanced practice compared to international peers. The consultation comprised both qualitative research (20 in-depth interviews with stakeholders, including MSPs) and quantitative research (a stakeholder survey designed to “gain clear measures of issues arising from the qualitative stage and to set a benchmark for future surveys”) (Progressive Partnership, 2018_[13]).

209. Keeping in mind the small sample size for the stakeholder survey and that the SFC is still in early days, the results were highly positive with respondents demonstrating a high level of trust in the SFC and the quality of its work. This trust was found in part to rest on perceptions of the SFC as truly independent.

Figure 5.1. Stakeholders rating of the SFC against four core values: trustworthiness, independence, expertise, and efficiency



Note: Respondents were asked: on a scale of 1 to 5, where 1 is very poor and 5 is very good, how would you rate SFC's performance against each of these principles?

Source: (Progressive Partnership, 2018^[13]).

210. As noted earlier, stakeholders interviewed by the review team had high praise for the accessibility and readability of the SFC's work. The results of the stakeholder consultation confirm this with publications rated as well argued (79% of respondents good or very good), accessible (72%), and authoritative (69%). Stakeholders were less confident rating the quality of the models with 18% saying they were unable to do so, but among those who were comfortable rating the quality of the models, 64% rated them as good or very good.

211. In March 2019, the SFC also undertook a limited qualitative survey on stakeholder views of its main forecast publication Scotland's Economic and Fiscal Forecasts. The key findings were:

- The report is well received, and provides clear information on the forecasts and changes in the forecasts.
- Infographics and visuals work well.
- The report was too detailed and included repeated information on the methodologies used. Requests were made for the report to focus on what has changed since previous forecasts rather than being a stand-alone document.

212. Based on this stakeholder feedback, for the May 2019 SEFF the SFC chose to focus on increasing the strength of the narrative and making the publication more concise and readable. The latest SEFF is significantly shorter than its predecessors (136 pages as compared to 220 and 260 pages in previous versions), including a shorter, more accessible summary. It contains a new 'Fiscal Overview' chapter that provides a helpful overview on the role SFC forecasts, the Block Grant, and the BGAs in determining the size of the Scottish Budget. It also explains how future budgets will be adjusted once the final outturn data are known and sets out an assessment of the potential size of these adjustments (reconciliations) to the Scottish Budget.

5.2.2. *Traditional media*

213. The SFC's main engagement with the press comes during twice-yearly press conferences when the SFC publishes Scotland's Economic and Fiscal Forecasts in mid-December and end-May, typically attended by around a dozen journalists. Following an introduction by the Chair, the SFC's Chief Executive presents the key findings (a copy of the presentation is also made available on the SFC website). The Commissioners and the Senior Management Team then answer journalists' questions, and the Chair may hold additional interviews with newspaper, radio or TV journalists.²¹

214. When the review team visited Edinburgh in June, some government stakeholders raised concerns that the SFC press briefings are closed. This is not common practice among peer IFIs and may create unnecessary frictions when the government is unable to prepare for the questions that may come up on the back of SFC messages. Since then, the SFC and the Scottish Government have reached an agreement in their new Protocol (September 2019) to allow the Scottish Government access to the press conference, alongside several other measures to improve transparency (faster publication on budget day to allow MSPs access to the report immediately after the Draft Budget speech is completed and a cut off for the publication of the Scottish Government's Medium Term Financial Strategy to allow a media conference the same day).

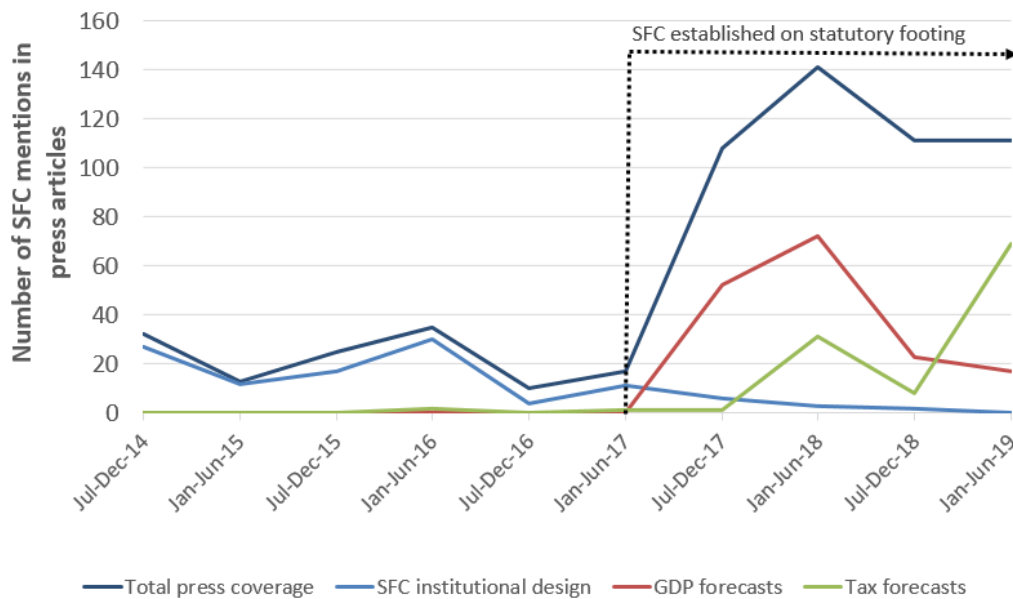
215. To date, the SFC has not tracked media mentions in a detailed way. This is partly because it has not had the resources to invest in more sophisticated media monitoring tools. The SFC provided an estimate to the review team that it had appeared in the headlines of around 60 articles and that references to its work appeared in about 60 additional articles. The review team was able to undertake some additional analysis of media mentions via Factiva that showed that the SFC actually had much higher media penetration, with over 600 articles mentioning the SFC in the period between June 2014 and June 2019. This in part reflects the SFC's role as the official forecaster, as the SFC tends to be mentioned whenever the forecasts are mentioned.

216. The SFC is regularly mentioned in articles in major newspapers in Scotland and the UK and receives coverage in specialist press such as the Financial Times.²² The top five sources showed as the Times (177 mentions), The Scotsman (144), The Herald (84), The Daily Mail (79) and the Press Association (70). Other major newspapers such as The Telegraph, the Daily Express and the Sun have also run between 25-35 articles each.

217. Up until the SFC was established as a statutory body, the majority of media coverage focused on debates around the rationale for establishing the SFC, its institutional design, remit, and the choice and appointment of its Commissioners.

²¹ To date the Chair has held a handful of interviews with radio and TV journalists.

²² One article in 2016, two in 2017, six in 2018 and four as of September 2019.

Figure 5.2. Key topics of articles where SFC received press coverage

Note: Period covered extends from July 2014 to June 2019. The categories “SFC institutional design”, “GDP forecasts” and “Tax forecasts” refer to topics of the articles in which the SFC was mentioned.

Source: Authors, based on Factiva database.

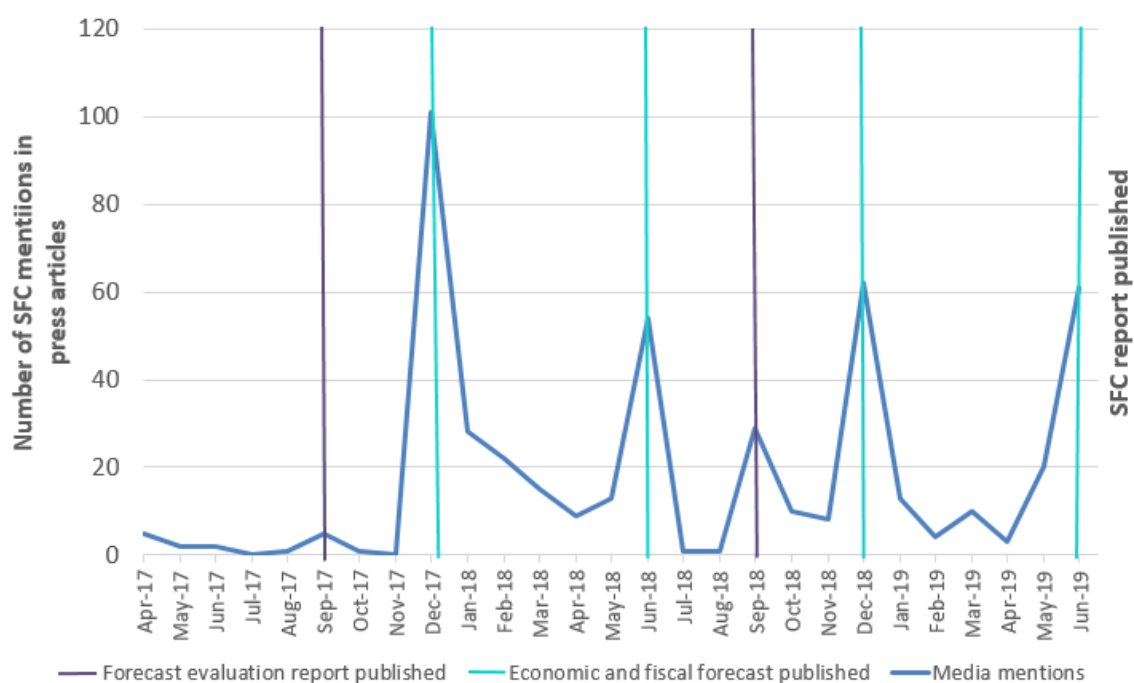
218. Since becoming a statutory body, media mentions overall have increased substantially,²³ although it should be noted that the period observed is under three years. While the SFC is more likely to be covered in news articles than opinion pieces, the share of opinion pieces where the SFC is mentioned has also increased over time.

219. Coverage has been in relation to SFC reports (with clear spikes in coverage when the SFC publishes the SEFF) and how these reports inform ongoing debates topics such as slow growth, productivity, income tax rates, and the state of Scotland’s public finances. For example, as show in Figure 5.2, mentions of the SFC’s GDP forecasts increased in the first half of 2018 in relation to coverage of low growth. Mentions of the SFC’s tax forecasts increased and overtook those of GDP forecasts during the last forecast round in the context of coverage of reconciliations.

220. The SFC has also been successful in signalling to the press when it is experiencing difficulties. For example, following publication of its first Statement of Data Needs in 2018, the press covered the challenges that the SFC had encountered in obtaining data from DWP.

²³ 125 mentions in 2017 and 252 in 2018. For the first half of 2019, articles mention the SFC 112 times, indicating that coverage is on track to be similar to 2018.

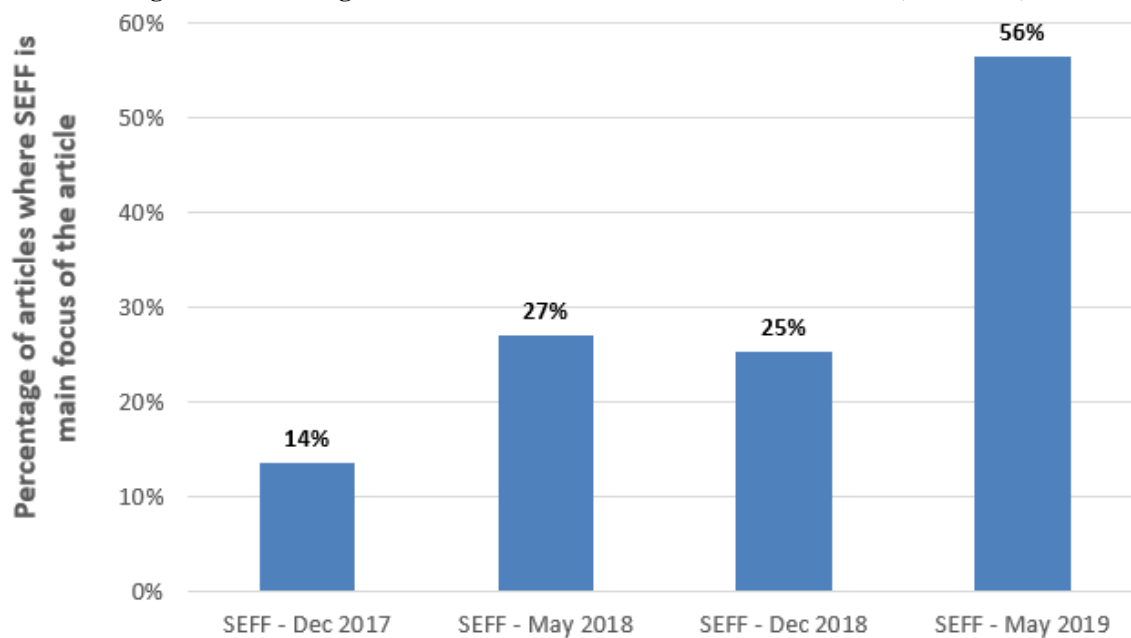
Figure 5.3. SFC press coverage and report publication



Note: Period covered extends from April 2017 to June 2019.

Source: Authors, based on Factiva database.

Figure 5.4. Coverage of the Scottish Economic and Fiscal Forecasts (2017-2019)



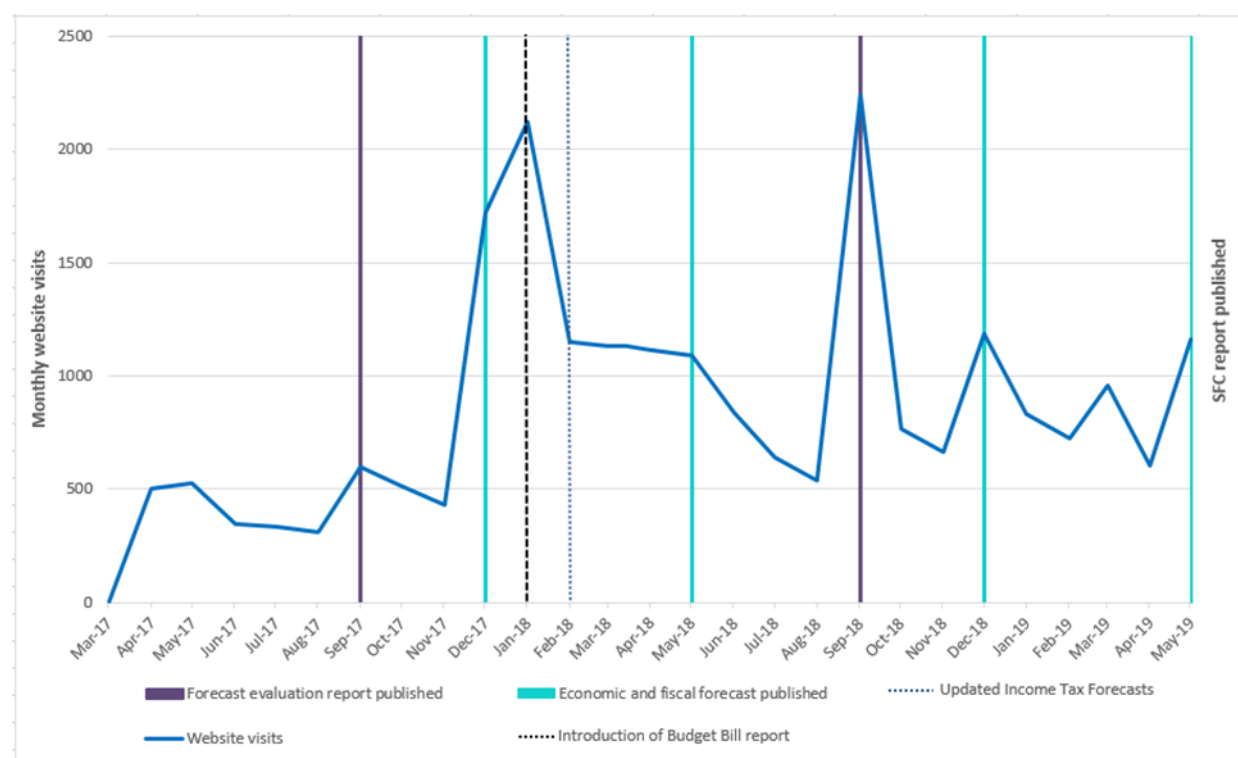
Source: Authors, based on Factiva database.

5.2.3. Website and social media

221. The SFC mainly communicates through its website where it publishes all of its reports and papers, along with supporting documents (spreadsheets, infographics) and press releases. The website is simple in its design and stakeholders have reported finding it easy to navigate. As the SFC produces more material, a balance will need to be struck between comprehensiveness and ensuring the website remains easy to navigate. In line with the experience of peers, the SFC would benefit from using more infographics on its website.

222. Figure 5.5 shows general traffic spikes upon the release of key SFC reports. The average number of weekly visits increased from around 125 in 2017 to around 235 in 2018.²⁴ The weekly average appears slightly lower so far in 2019 at around 200, but this is likely to change when visits around budget time in the second half of the year are taken into account.

Figure 5.5. Number of visits to the SFC's website



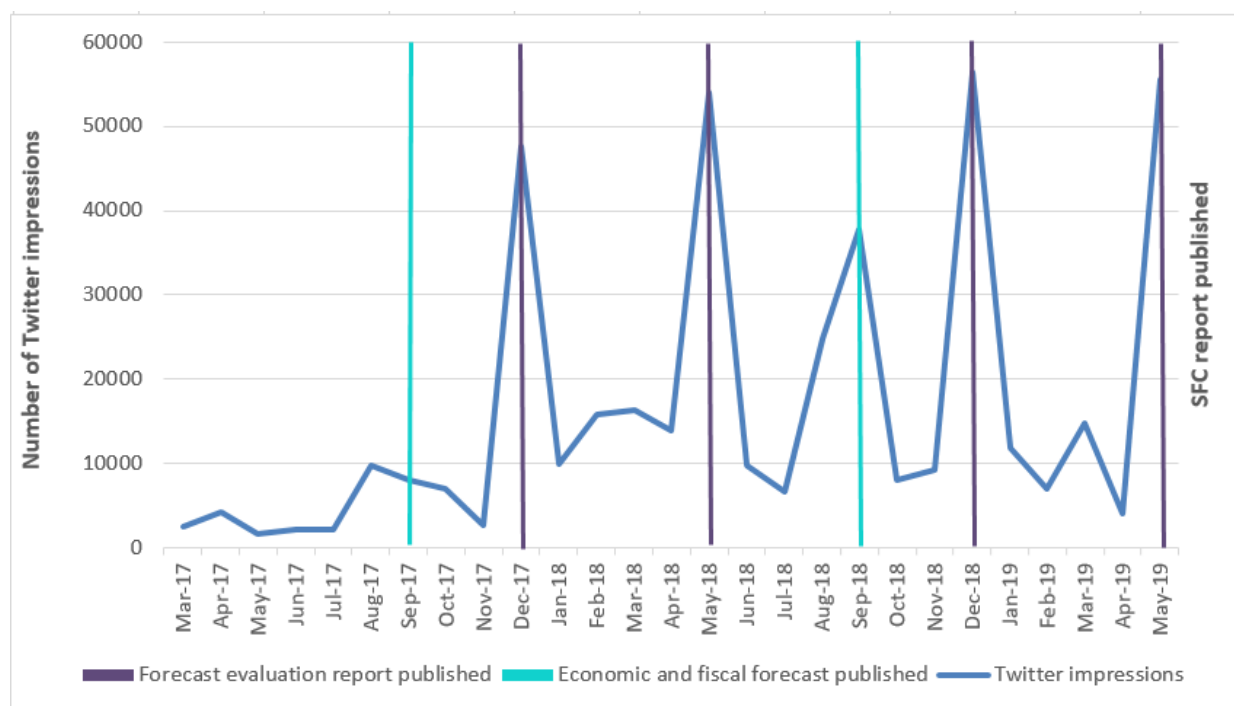
Note: In September 2018, the SFC also released three occasional papers including its Statement of Data Needs, a supplementary costing on Social Security Best Start Grant, and its Annual Report and Accounts. Two other occasional papers were released in September 2017 and March 2018, which may have driven additional visits.

Source: Authors, based on information provided by the SFC.

²⁴ In 2018, over 6000 unique users visited the SFC's website.

223. The SFC uses Twitter to promote its publications, events and any vacancies, and currently has a following of over 1,000. In line with good practice among peers, at the release of each publication, the SFC tweets infographics and simple visuals with key messages from its forecasts. Figure 5.6 shows spikes in impressions (the number of times tweets are seen) around the time that the SFC publishes its key reports.²⁵ Smaller peaks can be detected when occasional papers are published (for example two occasional papers in March 2018), or when an event was held.

Figure 5.6. Number of impressions of the SFC's tweets



Source: Authors, based on information provided by the SFC.

224. Although Twitter has proved to be a useful communication channel, more could be done to track and analyse the impact of communication via Twitter using additional metrics in order to develop and refine the SFC's Twitter strategy.

²⁵ Figures for engagement were not available.

Box 5.1. Overview of the use of Twitter by the Canadian PBO, the Irish Fiscal Advisory Council (IFAC), and the Scottish Parliament Information Centre (SPICe)

Canadian PBO

Social media – mainly Twitter – has been a useful tool in helping the Canadian PBO raise its profile and disseminate its products. The PBO’s Twitter interface is available in both of Canada’s official languages, English (@pbo_dpb) and French (@dpb_pbo).

The PBO tweets twice upon the release of every new report, with a 24-hour pre-publication notice tweet followed by a tweet once the report has been published on its website. In terms of content, the PBO tweets text, infographics and images. The PBO is currently exploring the option of using videos, but so far has been constrained by accessibility concerns. In terms of engagement with users, the PBO reads over @replies and direct messages from followers, as set by its Twitter policy. When a message containing a more specific question is received from a parliamentarian or his/her staff, the PBO will reply privately by email or via a bilateral meeting.

Similar to many of its peers, the Canadian PBO’s Twitter strategy has evolved over time to include more infographics and images. In an effort to standardise the ‘look and feel’ of its tweets and ensure consistent branding, the PBO is currently preparing a new graphic template that will be used to accompany the release of all its reports for the new parliamentary term.

Of note, the PBO started costing elections on 24 June 2019 and due to confidentiality provisions in place, the PBO’s Twitter account is silent during this costing period.

IFAC

IFAC tweets between 3 and 10 times a month. Depending on the topic, the institution tweets a mixture of text, gifs, videos, images and infographics. IFAC generally avoids responding to comments on Twitter.

Since its inception, IFAC’s social media strategy has evolved in four main ways:

- It now produces more regular tweets (for example, monthly updates on certain government finance statistics).
- It has started to develop videos and gifs around the key messages of its reports and issues these when they are topical. Although videos were initially difficult to produce, IFAC reports that they quickly become easier with experience.
- It now uses Twitter as a means to draw attention to parts of its reports that would have otherwise gotten less coverage after the initial release coverage has died down.
- Over time, IFAC recognised Twitter as a better means of targeting journalists, who tend to use this medium frequently.

IFAC mainly tracks “tweet impressions”, as well as, the number of profile visits and the number of followers. However, to date, IFAC has tended to put more focus on tracking web hits, press coverage, and other media impact than Twitter alone.

SPICe and the FSU

The FSU uses social media via the SPICe accounts, including Twitter, Facebook and Instagram. Although it is not possible to disaggregate the number of followers specifically

interested in FSU material from the larger array of topics covered by SPICe, it is interesting to note that within a year SPICe has built a Twitter following of 3,765. When SPICe briefings are promoted through social media channels, on average they receive 104% more views.

SPICe has embedded social media professionals within teams and taken the approach of using social media as an engagement tool rather than a one-way communication tool. SPICe is particularly good at linking tweets to parliamentary business, which likely helps increase its reach, impressions and impact. The SPICe Twitter account and Blog are also mutually reinforcing. The SPICe Twitter account alerts Twitter users to new SPICe blogs, which are often very topical. When SPICe blog posts are tweeted, on average they get 26% more views.

Source: Authors, based on information provided by the Canadian PBO, the Irish Fiscal Advisory Council, and the FSU.

225. Table 5.1 shows the number of followers of selected OECD IFIs on Twitter as of September 2019. The SFC fares similarly to IFAC, an IFI in a country of similar but slightly smaller size known for receiving good media coverage but which was set up several years before the SFC.

Table 5.1. Number of followers of selected OECD IFIs on Twitter (September 2019)

Institution	Numbers of followers on Twitter	Followers per million population
CPB (Netherlands)	8,689	508
OBR (United Kingdom)	8,414	127
AIReF (Spain)	4,044	86
PBO (Canada)	2,189	59
UPB (Italy)	2,095	34
IFAC (Ireland)	1,026	214
SFC (Scotland)	1,023	189

Source: Authors, 2019

5.2.4. Parliamentary debate

226. As noted earlier, the SFC is accountable to the Scottish Parliament. The Scottish Parliament has a role in the appointment and dismissal process for Commissioners. The SFC's enabling legislation requires that its forecast reports, annual forecast evaluation report, and Annual Report be sent to Parliament. In addition, the Framework Document specifies that the Commissioners should give evidence to the Finance and Constitution Committee at least twice a year, and to any other Committees that request it. Because the SFC is the official forecaster, the Cabinet Secretary for Finance, Economy and Fair Work refers to the Commission's forecasts in relevant statements to parliament. These provisions all ensure that the SFC is, by design, integrated into the parliamentary debate.

227. As mentioned in Chapter 1, the SFC Chief Executive participated as an external expert in the Budget Process Review Group established by the Finance and Constitution Committee and the Scottish Government to carry out a fundamental review of the Scottish Parliament's budget process. As such, the SFC has also been engaged in processes that

allow it to understand better the Parliament's needs and potentially evolving role in the budget process.

228. Beyond its legislative requirements, the SFC has sought to inform MSPs more generally about its role. Shortly after the SFC was established, the Convenor of the Finance and Constitution Committee hosted a lunch session to introduce MSPs to the SFC's work. These types of events should be considered as part of future induction processes for new members following elections.

229. The SFC benefits from the fact that the Scottish Parliament has specialised analysts that can engage with the SFC's work. The FSU draws on the work of the SFC in its briefings and since 2018 has added a dedicated section to its Draft Budget briefing outlining the SFC's forecasts. This helps to amplify the SFC's messages within the Parliament.

230. Between April 2017 and 28 May 2019, the SFC reports that there have been 62 references to the SFC (mainly referring to the substance of SFC reports) in parliamentary questions. The SFC appears regularly before committees and the SFC's work is regularly mentioned in parliamentary papers and reports.²⁶

231. Since it became a statutory body, the SFC has appeared before the Finance and Constitution Committee eight times (including with the OBR).²⁷ These appearances have tended to coincide with the release of SFC reports.²⁸ For 2018, the only full year the review was able to analyse since the SFC became a statutory body, the SFC appeared before the Finance and Constitution Committee more than the required two times and looks set to do the same in 2019.

232. The SFC has appeared twice before the Economy, Energy and Fair Work Committee (in October 2017 and January 2018), in relation to inquiries on economic data and Scotland's economic performance. It has also appeared privately twice (October 2017 and January 2019) and formally and on the record once (September 2019) before the Social Security Committee, demonstrating that other committees are beginning to take advantage of its expertise.

233. Parliamentary scrutiny of social security benefits, particularly the fiscal implications of social security benefits, has been low despite the fact that these benefits will take up a more significant proportion of the Scottish Budget and represent an area of future fiscal risk. The Committee has so far focused more on benefit design and uptake. This lack of scrutiny may be in part because most social security powers have not yet been devolved and because to date social security policy has been set through regulations rather than as part of the main Budget process. Parliamentary stakeholders expressed concerns that there was a lack of clarity as to whether the Social Security Committee or the Finance and Constitution Committee would take the lead on examining the fiscal implications, and

²⁶ Although the SFC does not routinely keep a record of all parliamentary mentions, examples provided showed references to the SFC in committee debates and reports from the Finance and Constitution Committee (Pre-Budget Scrutiny reports, reports on the budget, Earnings in Scotland), Local Government and Communities Committee (policy notes), Economy, Jobs and Fair Work Committee (report on Economic data and Scotland's Economic Performance), and the Social Security Committee (Budget Scrutiny 2019 - 20 and Best Start Grant Subordinate Legislation Scrutiny).

²⁷ Period analysed April 2017 – May 2019.

²⁸ One appearance was part of the appointment process for new commissioners.

sustainability issues, for the newly devolved social security benefits. The Social Security Committee is seen by parliamentary stakeholders as better equipped to take on this role, ideally with some coordination with Finance and Constitution Committee. The SFC is aware of this challenge and is committed to increasing engagement with the Social Security Committee.

5.2.5. Other communication activities and tools

234. The SFC has sought to inform the public debate through various events, although these have been geared mainly towards specialist audiences. For example, the SFC held public events on its approach to forecasting, which were advertised through the SFC mailing list and Twitter account. A recent debate at the David Hume Institute on Scotland's evolving Fiscal Landscape is another example of an opportunity the SFC took to bring their message to somewhat larger audience of around 100.

235. The SFC's subscription-based mailing list of over 150 people is used to send information on publications and events. For the wider public, the SFC has produced a leaflet to introduce the institution, and commissioned an infographic to explain its relationship with the Scottish Government and a short video to explain what it does. The latter have proven popular with numerous stakeholders.

5.3. Fiscal transparency gains and better data

236. Although the SFC has only been operating as a statutory body for two years, stakeholders credit it with increasing fiscal transparency in Scotland. The establishment of the SFC has increased public sector capacity and generated new information in the fiscal sphere. The SFC is viewed as having helped to depoliticise discussions on the forecasts and having helped to start shifting the budget debate from an annual to a more medium-term focus. While timings remain tight, the need to build in time for the SFC to develop its forecasts is seen as having helped to create a more disciplined and orderly budget process.

237. In particular, the evidence the SFC provided to the Economy, Jobs and Fair Work Committee inquiry into economic data²⁹ and the resulting recommendation to the SFC to publish an annual statement of data needs has helped push the Scottish Government to provide new data and improve existing data.

238. The SFC's Statement of Data Needs 2019 identifies areas of progress since its initial statement in 2018. It cites "encouraging improvements in both the range and quality of Scottish economic data available", including the two top priorities for the SFC: GDP by component of expenditure in constant prices and a detailed breakdown of Scottish household income in the Quarterly National Accounts Scotland. Revenue Scotland further enhanced the already high-quality statistics the SFC uses to produce its LBTT and the SLfT forecasts, published guidance on its differing accounting approaches for LBTT in its first Annual Summary of Trends in the Devolved Taxes, and published provisional and pre-audit figures for the devolved taxes. UK stakeholders have also improved the range of data available, for example, as mentioned in Chapter 4, HMRC delivered the SFC's three top priorities for income tax data, including the development of an official statistics publication of Scottish outturn income tax data, and a significant improvement to the main underlying survey data source used for the SFC's forecast.

²⁹ See <https://www.parliament.scot/parliamentarybusiness/CurrentCommittees/105164.aspx>

239. Stakeholders provided additional examples of progress, such as improvements in statistics on construction output by the Scottish Government after the SFC identified problems with this data during the forecasting process. They also noted that the work undertaken by the SFC has helped bring about improvements to the design and implementation of tax policy in Scotland, for example through increased consideration of issues such as forestalling.

5.4. Conclusions and recommendations

240. Although it is still a very young institution, the establishment of the SFC has increased public sector capacity and generated new information in the fiscal sphere. Stakeholders welcome that the SFC has helped bringing about transparency gains in relation to the Scottish Government's fiscal framework and improvements to Scottish economic and fiscal data.

241. The SFC invested early in communications and has been effective in communicating its work. Its decision to undertake a stakeholder survey is considered best practice and is in advance of many of its more established international peers. Stakeholders consistently commend the accessibility of the SFC's reports.

242. The SFC receives broad media coverage, especially around the time of its reports. The SFC could do more to track media mentions to better analyse and understand its media and social media impact.

243. The SFC has had significant engagement with the Scottish Parliament and is widely respected by parliamentary stakeholders, both politicians, and officials. Its analysis is increasingly used in the parliamentary debate. While the SFC has developed a strong relationship with the Finance and Constitution Committee, the Economy, Jobs and Fair Work Committee and Social Security Committees do not call on the SFC to give evidence as much as they could to help inform their scrutiny. The SFC should explore avenues to engage proactively with these committees, particularly the Social Security Committee as more benefits are devolved. The SFC should also take opportunities to hold more informal briefings and events with parliamentarians, including as part of the induction process for new members.

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Annex A. Review team and acknowledgments

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The review team would also like to acknowledge the helpful contributions to the drafting of the review from Emeline Denis, Junior Policy Analyst, Budgeting and Public Expenditures Division, Directorate for Public Governance, OECD.

Review team

Mostafa Askari has over 30 years of experience in economic analysis, economic forecasting and budgetary analysis. He spent 18 years at the department of Finance of Canada in various managerial positions in charge of macroeconomic model development, macroeconomic forecasting, economic analysis, government budget preparation and international economic policy analysis. He spent three years at the International Monetary Fund as the senior advisor to the Executive Director for Canada and its constituency at the Fund. He worked at Canada's Parliamentary Budget Office (PBO) from 2008 to 2018, first as the Assistant Parliamentary Budget Officer in charge of economic and fiscal analysis and forecasting, and then as the Deputy Parliamentary Budget Officer in charge of all analytical and costing work of the PBO. Mostafa now works as the Chief Economist of the Institute of Fiscal Studies and Democracy at the University of Ottawa.

Scott Cameron began his career in budget forecasting and tax policy in the UK and Canada before joining Canada's Parliamentary Budget Officer for seven years. He now manages a PBO training programme in Southeast Asia and is widely involved in IFI networks and public financial management capacity building programmes.

Carlos Marinheiro is a Member of the Senior Board of the Portuguese Public Finance Council since 2012 and Assistant Professor of Economics at the University of Coimbra, Portugal. Previously, he was a founding Member of the Parliamentary Budget Office of the Portuguese Parliament (UTAO) created in 2006, and its first Coordinator. Therefore, he was at the inception of such two Portuguese institutions, performing his duties at very challenging times for the Portuguese public finances. His research interests are mainly in fiscal policy aspects of the Economic and Monetary Union, including debt sustainability.

Scherie Nicol is a Policy Analyst in the Budgeting and Public Expenditure Division, Directorate for Public Governance, OECD. She specialises in the areas of independent fiscal institutions and parliamentary budget oversight. She began her career as an economist for the economic development agency for the Highlands and Islands of Scotland. She moved to the Scottish Parliament in 2008, providing research support to the elected members in areas relating to public finance and the economy. In this role, she helped set up the Financial Scrutiny Unit and worked on the devolution of increased fiscal powers to Scotland.

Lisa von Trapp is a Senior Policy Analyst in the Budgeting and Public Expenditures Division, Directorate for Public Governance, OECD. She leads the Division's work on

oversight, with a focus on the role of independent fiscal institutions and parliaments in the budget process. Prior to joining the OECD, she served as an advisor and representative to Europe for the World Bank's Parliamentary Strengthening Programme. As a parliamentary development practitioner, Lisa has worked to promote good governance and stronger oversight with a range of institutions including the United Nations Development Programme, the Commonwealth Parliamentary Association, the National Democratic Institute, the Swedish International Development Agency, and Parliamentarians for Global Action.

Annex B. Interview list

The review team would also like to thank all those who have contributed evidence and insights to this review, in particular individuals from the following institutions and groups who met with the team during its mission to Edinburgh in June 2019 and London in August 2019:

Scottish stakeholders

- Audit Scotland
- Bank of England Scotland Agent
- BBC journalist
- Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay MSP)
- Cabinet Secretary for Social Security and Older People (Shirley-Anne Somerville MSP)
- Fraser of Allander Institute
- Independent economist
- Revenue Scotland
- Scottish Fiscal Commission
 - Chair
 - Commissioners
 - Senior Management Team
 - Analysts
 - Communications
- Scottish Government
 - Director General, Scottish Exchequer
 - Directorate of Taxation, Scottish Exchequer
 - Directorate for Budget and Sustainability, Scottish Exchequer
 - Directorate of Social Security
 - Social Security Scotland
 - Office of the Chief Economic Adviser
 - Communities Analysis Division, Directorate for Housing and Social Justice
- Scottish Parliament
 - Finance and Constitution Committee Members
 - Finance and Constitution Committee Clerks
 - Financial Scrutiny Unit

- Social Security Committee Members
- SPICe

UK stakeholders

- UK Government
 - Department for Work and Pensions
 - HM Revenue and Customs
 - HM Treasury
- UK Office for Budget Responsibility
- UK Statistics Authority

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