

Business Plan 2019-20

Introduction

We are now entering the final year covered by our Corporate Plan for 2018-2020¹ that was published in April 2018. This Business Plan provides more detail on our development priorities and intended activities in 2019-20 including the development of a new Corporate Plan to cover 2020-23.

Strategic Context

Our Corporate Plan sets out the strategic context for the Commission's work during 2019-20. Our mission statement is:

As Scotland's independent fiscal institution, the Scottish Fiscal Commission will produce independent, official forecasts

We fulfil this mission through the delivery of our statutory duties and strategic objectives. Our strategic objectives are:

- (1) Delivering trusted, reliable and accessible economic and fiscal forecasts.
- (2) Working openly and constructively with stakeholders while maintaining our independence.
- (3) Increasing understanding through active external engagement and clear publications.
- (4) Building an organisation with robust governance, knowledgeable staff and transparent processes.

Building confidence in our forecasts and assessments is essential if we are to meet our objectives effectively; and the way we operate as an organisation will underpin this confidence. We have therefore based our approach on the OECD Principles for Independent Fiscal Institutions.²

The Corporate Plan contains more details on how we will achieve our strategic objectives through a range of activities. We expand on the activities that we will deliver in 2019-20 below and in particular our analytical development priorities for the coming year.

2019-2020 Activities

Many of our activities are driven by the annual cycle of preparing and publishing forecasts for the two Fiscal Events each year. These are the Scottish Government's Budget usually published in December and their Medium Term Financial Strategy about six months later in late May. Our forecasts are prepared in-house by the Commission's staff using models developed and maintained by the Commission. Our

¹ Scottish Fiscal Commission (2018) Corporate Plan 2018 – 2020 ([link](#))

² OECD (2014) Recommendation on Principles for Independent Fiscal Institutions ([link](#))

Commissioners are personally and collectively responsible for the judgements that underpin our forecasts.

Following each forecast we organise internal ‘wash-ups’ and also meet with the Scottish Government’s analytical and policy teams. We periodically update the Protocol with the Scottish Government outside of forecast rounds and are planning the next update over the summer.

We will continue to develop the transparency of our work, particularly through our voluntary compliance with the Code of Practice for Statistics.³ Although we do not produce official statistics the Code of Practice provides a helpful framework for the orderly publication of analytical information, its revision, the correction of errors and how we can be transparent in our work.

We have also consulted users on the presentation and communication of our forecasts and their feedback will be reflected in the publication of our summer forecast. We will think about how we can better explain the evolution of some of the key underlying mechanisms that drive our forecasts, for example the number of income tax payers. During 2019-20 we will continue to engage with our users, particularly focusing on how we can enhance the way we use our website, social media and infographics to better explain and promote our work.

Outside of our two forecast cycles we focus on model development and engagement. We are also required to publish an annual evaluation of our forecasts which informs both our model development and our approach to forecasting in the run-up to the Budget forecast. We intend to publish our Forecast Evaluation Report in September alongside our annual Statement of Data Needs. This Report will include an assessment of the 2017-18 outturn data for Scottish Income Tax receipts.

September will also see the publication of our Annual Accounts and Report for 2018-19.

Our legislation requires there to be an external and independent review of our activities after the first two years of operation. We are in the process of appointing a reviewer. We anticipate that the review team will send a mission to Edinburgh in the early summer when they will meet a number of our key stakeholders and users. The reviewer’s report will be published in the autumn.

2019-2020 Development Priorities

Our development priorities for 2019-20 are summarised below. These priorities have been developed in the light of our Forecast Evaluation Report,⁴ feedback from stakeholders and the evolution of the Scottish Government’s policies, particularly on the devolution of social security payments and the devolution of executive competency for a wide range of benefits from April 2020. On the Corporate side our

³ Scottish Fiscal Commission (2018) Compliance with the Code of Practice for Official Statistics ([link](#))

⁴ Scottish Fiscal Commission (2018) Forecast Evaluation Report – September 2018 ([link](#))

priorities have been informed by the work of our Audit and Risk Committee, internal and external auditors and statutory requirements.

Economy, Income Tax and VAT

We will be building a new Scottish economy forecasting model over the next year to replace the current SG-GEM model. This will give us much greater flexibility and control over how our economy model is developed and updated. It will also allow us to integrate the model with the rest of our forecasting process. In conjunction with developing our new model, we are exploring developments to our economy forecasting process more generally. This will include a number of practical and process improvements, as well as:

- Development of the way we disaggregate public vs private sector employment and earnings so this is an integrated part of the economy model. This will allow us to improve modelling of certain policies including public sector pay.
- Further disaggregation within the model of different types of household earnings, for example distinguishing between employee and self-employment earnings, to better align our economy forecasts with our income tax forecasts.
- Alignment of our forecasts with newly available estimates of Scottish GDP by component of expenditure in constant prices.

Outside of our main forecasting model, we are also looking to improve the way we forecast public sector consumption expenditure, including further disaggregation between types of expenditure and levels of government.

These improvements rely on ongoing developments in Quarterly National Accounts Scotland (QNAS) as discussed in our Statement of Data Needs and the Scottish Government's Economic Statistics Plan.^{5,6} We hope to be able to publish further information on these developments in summer 2019.

Brexit is a significant uncertainty in our forecasts. Monitoring Brexit developments and considering how those should best be included in our forecasts will be an important ongoing area of work.

We will be exploring the value of Real Time Information (RTI) in our income tax forecasts as discussed in our Statement of Data Needs. This will follow on new annual RTI data to be published by HMRC in summer 2019.⁷ At the moment we have insufficient data to be confident about the relationship between RTI and other income tax data sources.

We will also be continuing to review and develop our approach to modelling the effect of behaviour change on income tax liabilities.

⁵ Scottish Fiscal Commission (2018) Statement of Data Needs ([link](#))

⁶ Scottish Government (2018) Scottish Economic Statistics Plan 2018-19 ([link](#))

⁷ HMRC (2018) Letter from Jim Harra to Bruce Crawford MSP ([link](#))

VAT is one of our newer taxes to forecast, with our first forecast published in December 2018. We'll be doing quality assurance, refinement and streamlining of our VAT modelling in the coming months.

Devolved Taxes and Social Security

Over the course of 2018-19 we significantly expanded our work on social security, setting out our approach to forecasting social security in September 2018 and publishing forecasts and costings for three new benefits, Best Start Grant, Funeral Expense Assistance and Best Start Foods. This year will be the first in which we evaluate our social security forecasts published in December 2017, May 2018 and December 2018.

With executive competence for the remaining benefits to be devolved to the Scottish Parliament from April 2020, our focus for 2019-20 is on the development of forecast models for the following benefits: Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Disablement Benefit, Severe Disablement Allowance, Cold Weather Payment and Winter Fuel Payment. Forecasts of expenditure on all these benefits will be published alongside the Scottish Budget 2020-21. As part of this model development we are also expanding our data requirements for social security forecasting from both the Department for Work and Pensions and Social Security Scotland.

Our devolved tax forecasts cover Non-Domestic Rates (NDR), Land and Buildings Transaction Tax (LBTT), Scottish Landfill Tax (SLfT) and Air Passenger Duty (APD). The Forecast Evaluation Report to be published in September will include an assessment of the performance of our one-year ahead forecasts published in December 2017 covering 2018-19. It will also look at the evidence available to assess the policy costings we have undertaken in these areas, including the seven NDR policies costed in December 2017 and the introduction of first-time buyer relief for LBTT in June 2018. We also expect to make a preliminary assessment of our forestalling estimates for the two changes to LBTT introduced in January 2019, the increase in the rate of the Additional Dwelling Supplement and the changes to non-residential LBTT.

After reviewing and rebuilding our non-residential LBTT model last year, this summer we will review our residential LBTT model and simplify the model where appropriate. We will revise our APD forecast to incorporate the Civil Aviation Authority Departing Passengers Survey for 2018 conducted in Scottish airports.

The Scottish Government Budget and Borrowing

As more taxes and social security benefits are devolved to the Scottish Parliament, the Scottish budget is increasingly affected by the reconciliations for both our forecasts of revenues and expenditure and the block grant adjustments. Our work on borrowing will continue to assess the likely scale of these reconciliations and we will consider how to incorporate these into our forecasts of public spending. We will

continue to consider the Scottish Government plans on Resource and Capital borrowing and their use of the Scotland Reserve.

Corporate and Strategy Activities 2019-20

On the corporate side, we are moving from establishing the organisation to refining and improving our business as usual processes. We will have the controls and monitoring necessary for the proper stewardship of our resources and that are appropriate to our scale and functions. Our initial focus will be to consider our finance support and budget monitoring processes. We will also develop a regular review cycle of all of our policies and procedures in order to support good governance.

Preparing for the statutory review of the Commission – and taking forward its recommendations - will be a significant piece of work in 2019-20. Both the review and the annual audit process will offer us feedback and guidance as we refine our corporate processes.

Accommodation will also be a priority for us in the coming year. We are now the sole occupants of Governor's House, which offers us the scope to improve our working environment. Feedback from our staff surveys have demonstrated that improvements in the accommodation are required and it is our goal that the staff are able to work in a pleasant, healthy environment that fosters collaboration.

We are conscious that the Commission can only achieve its objectives through the expertise, diligence and commitment of our staff. Staff wellbeing and development will therefore continue to be a key focus for us.

Resources

The Scottish Fiscal Commission's budget for 2019-20 is £1.9 million. In line with the OECD Principles for Independent Fiscal Institutes, the Scottish Government has provided us with an indication that our funding for 2020-21 and 2021-22 will be £1.947 million and £2.022 million.

The Commission now comprises four Commissioners:

- Dame Susan Rice (Chair)
- Professor Francis Breedon
- Professor Alasdair Smith
- Professor David Ulph

The Commissioners are supported by a staff located in central Edinburgh. The Senior Management Team comprises:

- Chief Executive (John Ireland)
- Head of Economy, Income Tax and VAT (David Stone)

- Head of Devolved Taxes and Social Security (Claire Murdoch)
- Head of Strategy, Change and Corporate Services (Susie Warden)

Our current head count is 21 with a full time equivalence of 19.65.

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