

19th November 2015



Convener
Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener,

Thank you for asking the Scottish Fiscal Commission (SFC) to respond to questions the Finance Committee has raised in relation to the Scottish Fiscal Commission Bill which is currently under scrutiny.

Forecasting tax revenues

In a rational world, there should be one official forecast of tax revenues and there should be an independent assessment of that forecast. The assessment may be informed by activities such as independent forecasting, drawing on research, modeling and analyses; such exercises should be done as required, and do not need to be done for every instrument and in every round. These activities should lead to a check on the official forecast. They should not become the basis in themselves for informing the Draft Budget.

The SFC, as the 'assessor', believes it should develop the latter type of forecasts alongside research, modeling and analysis. The object of the SFC doing so would be to provide a comparator to the forecasts released by the Scottish Government, which would help in the overall assessment of the reasonableness of the official forecasts.

The SFC will need appropriate capacity and resources to do this work, and indeed has already begun the process of building such capacity this year with the engagement of two research assistants. But it would note that building up technical and targeted modeling capacity takes time; it's not a matter of hiring people off the street.

In order to operate independently, the SFC would itself determine when and about what to carry out such forecasting, research, modeling and analysis.

Regarding sensitivity analyses, there are limited variables in current Scottish Government forecasts which could be subjected to such analysis; there may be more over time. But, even now, there may be instances, for example, when the SFC would want to consider or propose a wider range of economic determinants for a given tax, or it might comment that the official forecast is reasonable but particularly sensitive to specified factors.

In sum, the SFC agrees that it should develop its own forecasting methods and analytical tools and its capacity over time, to assist in its judgment of the reasonableness of the official forecasts. But it does not propose to produce the official forecasts which inform the Draft Budget.

Role of the SFC prior to the publication of the SG forecasts

The SFC identifies two types of interaction with the Scottish Government forecasters. There are pros and cons as to when these interactions should take place.

There is a time when contact with the forecasters is helpful in equipping the SFC with a full understanding of the approaches they are taking. And there is interaction once the official forecasts are complete, at which time the SFC will have questions for the Scottish Government in order to understand better what underpins the forecasts, so that it can carry out its assessment of their reasonableness.

However, if there is direct engagement while the forecasters are developing and refining their forecasts, there could be the imputation of undue influence over the very forecasts on which the SFC has to pass judgment.

On the other hand, if there is no contact, there is the possibility of a Budget debate taking place using unreasonable numbers, and that is surely to no one's benefit. If there is no contact between the SFC and the forecasters until the Draft Budget is published, and the forecasts turn out to be lacking, surely there will be loud voices asking where was the SFC? And why did they not do something to ensure a sounder set of forecasts?

The SFC views its role as one of serving the public good. With that aim in mind, it would propose a possible solution to this conundrum. The SFC could have direct engagement with the forecasters in the early part of the year when the forecasters are developing or refining their models. The SFC would draw on any challenges it had issued in relation to the forecasts developed for the previous Draft Budget, and on its own conceptual approach to given taxes. The SFC's role would be to challenge and influence the efficacy of Scottish Government processes and approaches, for example in light of out-turn numbers or if an approach has had to be developed for a new tax.

The SFC would then have no contact while the Scottish Government developed its forecasts and until the point when the Draft Budget itself is submitted for publication. At that point, the SFC would engage directly with the Scottish Government again to investigate the processes and approaches they chose in the end to take. And, at that stage, without having had any interaction while the forecasts were developed, the SFC would make its assessment of the reasonableness of those forecasts.

In order to ensure transparency at every stage, the SFC would publish Minutes of its meetings with the Scottish Government, both those early in the cycle to look at Scottish Government methods and approaches, and those emanating from the scrutiny meetings after the forecasts are made public.

It would facilitate our work if the SFC could see the forecasts as soon as the Draft Budget goes to print, which is some days before it becomes public. Also, the SFC has found value in submitting its Report to Scottish Government purely to check for factual errors, and would propose doing so very shortly before its Report is published, and after the forecasts have been finalised.

Additional functions

The SFC believes it should have responsibility for assessing the Scottish Government's forecasts on the sustainability of Scotland's public finances, such as adherence to fiscal rules as an example, and it would welcome the Bill being amended now to anticipate this additional responsibility when it arises.

In order to play a role in relation to the block grant adjustment, the SFC would clearly need to understand how the adjustment is calculated and applied. However, the SFC understands that the mechanisms for adjusting the block grant are currently under discussion. For that reason, we won't at this time offer a view about potential engagement in this area. Whatever the ultimate decision, however, the SFC should play no role in negotiations between the Scottish Government and the UK Government.

Whether Parliament proposes that the Scottish Government develop a charter for budget responsibility, or the adoption of fiscal rules, our response is the same. The SFC should play a role in adherence to these requirements.

Right of access to information

The SFC believes that the right of access to the information it requires is essential; it would have no objection if this wording were made more robust.

MOUs are the normal way of working across public sector areas; if the SFC's right to establish relevant MOUs would be better safeguarded with more explicit wording on the face of the Bill, then the SFC would support doing so.

Principles of transparency and cooperation should underpin all the working arrangements between the SFC and the Scottish Government and other relevant public bodies. To date, the SFC has found these counterparties to be fully cooperative.

Over time and in order to do its job properly, the SFC's goal would be to have a deeper relationship with the OBR and HMRC. The Scottish Government would need to negotiate with the UK Government in the first instance to establish formally those relationships.

Appointment of members and staff

The SFC believes the proposed appointment and removal procedures are adequate for ensuring the independence of Commission Members. The Public Appointments process is rigorous and rigorously executed.

The term of office should be stated in the Bill and the SFC believes, on the whole, that a single non-renewable term as currently pertains is effective, and that individual terms should be staggered.

The SFC must be able to determine its own staffing arrangements, within the constraints of public sector T's and C's.

Resources

The overall costs set out in the Financial Memorandum appear to be suitable for the work currently required of the SFC. As the remit of the SFC expands, it will need to commit more time for instance to research, assessment of adherence to fiscal rules and to carry out other activities. The resources available to it will need to grow prudently to support the additional work.

We hope these comments are useful and look forward to meeting with the Committee in due course.

Sincerely yours,



Lady Susan Rice



Professor Campbell Leith



Prof Andrew Hughes Hallett