

Scottish Fiscal Commission
4 Lillybank Gardens
Glasgow
G12 8RZ

3rd February 2015

Convenor
Finance Committee
The Scottish Parliament
Edinburgh EH99 1SP

Dear Convenor,

The Scottish Fiscal Commission (SFC) has reviewed relevant sections of the Committee's report on Draft Budget 2015-2016. We welcome the opportunity to respond to those recommendations specifically addressed to the SFC.

We'd like to start by setting out a context. The SFC operates within the remit approved by Parliament last year, as I'm sure you would expect us to. There is, however, a lot of discussion at this time about how that remit should evolve now or in the future. For the sake of clarity, and it may be unnecessary on our part, so it is therefore with great courtesy that we would refer not just members of the Committee, but indeed the Parliament more widely, to the current remit.

Our responses, as they should, reflect what we are empowered to do and shall follow the order of the Committee's recommendations.

34, 44, 54: It is indeed our intention to compare forecasts to actual outturn figures, once we have figures for the outcomes that match the forecasts made under the current techniques. At the moment, we haven't been given sufficient data on matching pairs.

As an aside, the forecasters currently model the devolved taxes within a two-year timeframe. Last autumn, the SFC reviewed the methods used by the forecasters and found them suitable in the near-term.

If a five-year view was required, there may be little value in mechanical extrapolation of the numbers. Adopting a longer timeframe might require a change to the forecasting method.

In addition, it could be that external economic and financial factors which have relatively small effect in the near-term would be deemed to be more significant over the medium-term. Incorporating such effects into the forecasts would then have a greater impact on our judgement as to their reasonableness.

We would reiterate the view expressed in the SFC Report last October, that we would like to see behavioural factors incorporated into the models as soon as practicable. The recent exercise to examine the effect of forestalling on the LBTT is a start. But there may be other environmental or behavioural factors which would have a greater

impact on the outcomes than forestalling, particularly in the medium-term, and these need to be considered as well.

As you know, the SFC responded in brief to the forecasters' initial work on forestalling. We have discussed it in full with them and requested that further evidence be provided in relation to the assumptions underpinning the calculation. When the next iteration is ready, we will review it and make a further judgment.

108: We have reviewed the audit report on the Non-Domestic Rates Account (NDR). We would appreciate hearing from the Committee what aspect would require review. It's conceivable your interest is in relation to within-year payout estimates. But these may be expected to relate to income received already for the year, rather than forecasting ahead. So we would find it helpful to have a steer from the Committee as to what forecasting takes place in this context and the extent to which our scrutiny of those forecasts would be beneficial.

111: As you know, SFC reviews for reasonableness the work of the SG forecasters – their data and any other inputs and judgments made. Regarding economic determinants, we don't select the determinants as we don't make our own forecasts, but rather respond to those put forward by the Scottish Government forecasters. We make a judgment that such determinants have been incorporated into, and have properly motivated, the underlying forecasts. If the Committee wants the SFC to develop its own analysis of the underlying determinants, we would require our remit to be developed further.

132: This point is one for future consideration, as it is well beyond expectations for the SFC today. The Committee will know that, as part of the Programme for Government, work will begin to put the SFC on a statutory basis. We expect that a draft bill will be circulated for consultation at some point and this recommendation is perhaps best addressed during that consultation.

We trust this letter responds satisfactorily to each of the recommendations relevant to the SFC and we are happy to give oral evidence to the Committee as required.

Sincerely yours,

Lady Susan Rice

Prof Andrew Hughes Hallett

Prof Campbell Leith