

9<sup>th</sup> February 2016

Mr Kenneth Gibson MSP  
Convener  
Finance Committee  
By email



Dear Kenneth,

Thank you for your letter of January 20<sup>th</sup>. I'm pleased you have asked the Scottish Fiscal Commission (SFC) to share its views on those recommendations in the Committee's Stage 1 Report which directly relate to the operations of the Commission and how it discharges its functions.

In fact, I had been looking for a route to share some views with you and your letter was, therefore, quite timely. I shall note relevant paragraphs below.

#### **¶25-26**

Over the last year, the Commission has taken significant steps, which we have shared with the Finance Committee, to increase the perception of our independence and we will continue to look for suitable ways to achieve this. Publication of full Minutes of our meetings with the Scottish Government (SG) is one example. Since the beginning, as well, we have made public a list of all our meetings and content with government officials or other relevant agencies.

In our Report on Draft Budget '16-'17, paragraph 1.24, we mention that, as we refine our scrutiny work, we will develop a Protocol describing it and publish that on our website. We anticipate that it will address the nature and relative timings of our interactions with the Scottish Government (SG) during the forecasting process. In previous meetings, we explored with you a possible pattern of interaction with the SG over a typical fiscal year. We will continue to develop all this thinking.

For the sake of absolute clarity, we would remind the Committee that our assessment of reasonableness comes at the end, as a package, not along a series of steps. We don't first judge step A to be reasonable and then move on to step B. We would hardly have a fluid or timely process if we proceeded on a stepped basis and, indeed, our judgement about reasonableness can only be taken at the very end of the process.

#### **¶41**

The Commission agrees that it needs to be able to challenge or criticise the SG when it's appropriate to do so. Our interactions with the SG forecasters are now minuted and the Minutes are published. In addition, our Report on the Draft Budget explores some of our areas of debate.

However, we note that while we may challenge or debate aspects of the Government's methodology, we do not tell the SG what to do – either with regard to its methodologies or its forecasts.

#### ¶143

As stated at our session with you in January, the Commission **at no point agrees** a forecast or a methodology. The Government is fully responsible for both; the SFC provides commentary on both. We do this in the form of critical assessment and suggestions, but it is up to the SG to decide how to respond to our challenges.

#### ¶145

The Commission, as we have frequently stated, subscribes to a value of transparent working practices. By introducing detailed public Minutes of our meetings with the SG, we believe we have taken a major step towards enhancing our transparency. We will continue to discuss with the Finance Committee what else we might to improve our transparency or make more understandable the work we do.

#### ¶166

Again, I would stress that the Commission does **not** reach agreement with the SG, either behind-the-scenes, or publicly. We carry out an ongoing critical assessment of the work of the SG forecasters. It is essential to have it fully understood that at no point do the SFC and the SG reach agreement during the process. Indeed, the SFC does not tell the SG that we judge its forecasts to be reasonable, or not, until we finally publish our Report

#### ¶169

The SFC has been consistent in its response to the Finance Committee with regard to whether it believes it should produce the official Forecast, and I capitalise the word. We believe that one body should produce the Forecast, while another body scrutinises it. If the SFC produced the official Forecast, a new scrutinising function would have to be established. We have taken the view to date that our current role in scrutinising – based on our own analysis, research and (lower case) forecasts – is efficient and effective and adds greatest value.

We will, of course, do what Parliament asks us to do. If we are required in due course to do the Forecast, the Commission would build up the resources necessary to meet that new requirement and carry out such a task in all good faith.

#### ¶103-104

As we previously stated, if and as our remit expands and some data are provided by UK agencies, we would require appropriate access to those data. It is our understanding that early conversations have begun between the Scottish and UK Governments regarding how to provide such access on a statutory basis. At the right point in time, if and after this has happened, the Commission would develop a Memorandum of Understanding both with HMRC and the OBR. Indeed, we are exploring whether there would be any benefit in setting up an MoU with the OBR in the meantime.

#### ¶117-119

The Commission is willing to take on expanded responsibilities, which in our view could include assessing the performance of the Government against its fiscal rules and an assessment of the long-term sustainability of the public finances. But the exact nature of what we do can only be determined once the detail of the new fiscal framework is agreed. That will inform both our responsibilities and, to some extent, how we carry them out. The fiscal framework may also evolve over time so, whatever the nature of expanded functions of the SFC, we would propose to keep a regular review of them. We would also expect, of course, to engage in conversation with the Finance Committee at the right time about such matters.

In sum, we want to be transparent about our work, have already taken significant steps to ensure we are perceived independent, and will do more as appropriate, such as developing and publishing a Protocol of our work. Also, we believe the current approach where one body produces the official Forecast, and another scrutinises it, is working and is effective. It is also an efficient use of resources. At the same time, we will of course accept new responsibilities as and when they may be required of us.

I hope you find these comments helpful, but please do come back to us if you have any further questions on Stage 1 Report recommendations directed at the Commission.

Sincerely yours,

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

Lady Susan Rice