

Bruce Crawford MSP
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
EH99 1SP

17 February 2017
SENT VIA EMAIL

Dear Convener,

Thank you for your letter dated 10 February. The Scottish Fiscal Commission (SFC) has reviewed relevant sections of the Committee's report on Draft Budget 2017-18. We welcome this opportunity to respond to those recommendations specifically addressed to the SFC.

Our responses below follow the order of the Committee's recommendations and these reflect both our current non-statutory role and also our future role as the body responsible for producing independent forecasts from April this year.

39, 40, 211: From April, the Commission will become responsible for the production of independent forecasts of devolved tax revenues, demand-led social security expenditure and onshore GDP. The Commission intends to present forecasts in a transparent and accessible style; indeed, this will act as one of the guiding principles when we compile our reports.

The Commission's 2015-16 outturn report published in September last year dissected the differences between the revenues collected and the original forecasts and explained the reasons for these differences. We intend to continue to do this in our reports, assessing the accuracy of our forecasts and using the information to refine our modelling approach. In our publication accompanying the Scottish Government's Draft Budget, we will publish a comparison to the previous forecast, including a detailed breakdown setting out any changes which impact on the forecasts and quantifying the impact of those changes. Where possible, we also intend to publish in-year forecasts for each of the devolved taxes alongside our five year forecasts.

41: The Scottish Fiscal Commission Act requires the Commission to agree a protocol with Scottish Ministers for their engagement in relation to the forecasting and assessment process. We are currently working with the Scottish Government to

finalise a protocol; however the protocol will be influenced by any new arrangements for the Budget process recommended by the Budget Review Group. Once agreed, the protocol will be published and shared with the Finance Committee. As the Budget process and our operating arrangements develop, we will keep the protocol under review and revise if required.

We support the recommendation that further consideration is required as to how this fits with our statutory duties to produce forecasts twice a year and how the timing of the production of these forecasts fits with the Budget process. The interim Chief Executive of the SFC is a member of the Budget Review Group and will feed into this process.

49, 54, 187: The Commission will have a statutory duty to prepare reports assessing the accuracy of forecasts produced by the Commission. Our first forecasts will be produced for the financial year 2018-19 and once outturn data are available we will produce an evaluation and assessment of our own forecasts. As your report noted, the time lag associated with the availability of outturn data varies by tax; this will therefore affect the timing, and potentially the frequency, of our evaluation reports. In the meantime, the Commission will continue to produce analysis comparing revenues received to the Scottish Government's forecasts; our analysis of the 2016-17 data will be published this summer.

200: The most up-to-date outturn data for 2016-17 (published February 2017) suggests that the proportion of LBTT revenues received for housing transactions in the £325k to £750k price band is broadly similar in 2015-16 and 2016-17.

As our report on the Draft Budget noted, the Scottish Government's forecasts for 2017-18 include an adjustment to reflect the fact that while the model can accurately forecast aggregate revenues, when fed appropriate economic determinants it struggled to capture the distribution of revenues across, in particular, the upper price bands in 2015-16. We will assess this approach in the forecast evaluation report for 2016-17.

206: The Scottish Fiscal Commission is currently reviewing the methodologies used for forecasting all the devolved taxes. As new data and evidence come to light we will consider the inclusion of behavioural factors in our forecasting methodology for residential LBTT. Should there be any policy changes relating to LBTT, the SFC would incorporate estimates of forestalling into any forecasts.

250: The Scottish Fiscal Commission Act requires the Commission to set out its assessment of the reasonableness of Scottish Ministers' projections as to their

borrowing requirements. The Commission interprets this role as assessing any borrowing which Ministers can project in advance, specifically within the capital borrowing arrangements set out in the fiscal framework. This borrowing would usually be set out in the Scottish Budget. Our assessment of the reasonableness would consider the level of borrowing relative to the statutory caps set out in the Scotland Act 2016. This would complement the work of the Scottish Government which considers the future profile of repayments and interest payments.

My colleagues and I on the Scottish Fiscal Commission 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.

I am copying this letter to the Cabinet Secretary for Finance and the Constitution.

Best wishes,

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

Susan Rice CBE