A solid orange right-angled triangle pointing downwards and to the right.

Collette Stevenson MSP
Convener
Social Justice and Social Security Committee
The Scottish Parliament
Edinburgh
EH99 1SP
29 February 2024

Dear Convener,

Today the Scottish Fiscal Commission has published a short paper [How we set policy baselines – Scottish Fiscal Commission](#). Although this may appear to be largely a technical issue, it is an important part of our forecasts, and has implications for our policy costings.

A policy baseline is the set of assumptions we include in our forecast covering all policy aspects of the tax and social security systems. Policy baselines are a critical part of our forecasting process, allowing us to both produce forecasts and provide costings for government policy decisions. We are required to forecast tax and spending five years ahead, so our forecasts depend on how the tax and social security systems evolve over our forecast horizon. In the absence of an explicit policy from the Scottish Government, our baseline sets out our counterfactual set of values for the evolution of these key factors. The policy baseline has the potential to have a large effect on the forecast levels of tax and spending and, to the extent that the government does something different from what is in the baseline, on what will count as a policy change.

Tax revenue, funding for the Scottish Budget and social security spending are determined by Scottish Government policy decisions and legislation. Our policy baseline only affects the presentation of our forecasts for years in which there isn't an explicit government policy, and affects how policy changes are presented. Our forecasts, when shaped by our baseline assumptions, are important for longer-term planning, informing public debate and scrutiny of Government policy decisions.

In the paper, we outline an updated approach to setting policy baselines, which we believe will improve transparency and scrutiny of our forecasts and the Scottish Budget process. In short:

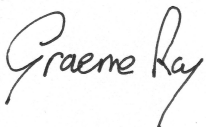
- As Scotland's official forecaster, our preferred position is that the Scottish Government clearly and publicly sets out a detailed baseline policy position for all taxes and social security spending over our five year forecast horizon. I have written to the Deputy First Minister to highlight this point.

- When this information is incomplete or missing, we will need to make our own policy baseline assumptions. Our guiding principle is maintaining neutrality with respect to inflation. We'll also consider how our baseline assumption can increase transparency and aid public understanding and scrutiny of Government policy changes.
- In particular, to target neutrality in our five year forecasts, where appropriate, we will assume thresholds and payments will rise in line with Consumer Price Index (CPI) inflation.

We'll be applying this new approach in our next forecasts, expected to accompany the Scottish Government's Medium Term Financial Strategy in May. We'll only apply new baseline assumptions in our forecasts from 2025-26 onwards, leaving the 2024-25 budget year unaffected.

The immediate effects of our new approach are likely to be greater on our tax forecasts than our social security forecasts. Social security policy baselines are generally well covered by existing legislation. However, I believe our new approach is an important development for all our forecasts. I believe this new approach will bring greater transparency and improved scrutiny of Government policy changes, and I would be happy to discuss this in further detail.

Yours sincerely

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy