Preamble

We understand that the questions asked in this Call for Evidence are in relation to the Scotland Fiscal Commission Bill which is the responsibility of the Scottish Government. We recognise that the Scottish Fiscal Commission (SFC) is a fairly rare institution as it is an independent fiscal institution (IFI) operating at a sub-sovereign level. We welcome the intention to enhance the SFC’s status by putting it on a statutory basis. However, we wish to make clear that we do not agree that the best way to establish credibility is to have the SFC operate on an ‘independent scrutiny’ basis. First, we assume that this would be done by academics and in the media anyway. Second, given the uncertainty around any forecast the threshold reasonableness is too low or ‘unreasonable’ is too high. Third, it will be difficult for the SFC to establish credibility as it does not ‘own’ a forecast. Finally, fourth, it is unclear how an opinion adds to transparency. As a general point we do not accept that the appropriate governance of an IFI depends on the amount of tax and spending powers of the government. That is an issue of scope. The appropriate governance of an IFI is a function of how credible, transparent and effective the government intends the IFI to be.

1. Forecasting tax revenues

The Committee would welcome views on whether:

- there is a need for independent forecasts in addition to the Scottish Government official forecasts?
- the Commission should have the capacity and resources to make its own forecasts even if its role is to assess the official forecasts?
- the Scottish Government forecasts should be subject to sensitivity analysis carried out by the Commission?
- the Commission should be able to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections?

Comments:

In our view the SFC’s role in preparing reports with the assessment of reasonableness is too narrow. Our preferred arrangement would be for the SFC to prepare its own independent forecasts both from revenue and expenditure sides, using inputs from the Scottish Government and civil servants and evaluating the fiscal consequences of their policy proposals.
Producing a forecast greatly adds to discipline. In our view, it is only by going through the full forecasting procedure that one really notices the quirks in data and difficulties. At the same time, if the final configuration is for the SFC to purely assess forecasts, we do not think that in this situation the SFC should produce a competing forecast. Its role would be unclear and this would create tensions between the SFC and the Scottish Government, which would have a negative effect on the ability of the SFC to effectively carry out its duties. Moreover, we doubt that this would add to the credibility of the SFC. It is not a question of which forecast turns out closer to the outturn – much can happen after the forecast. The credibility comes from the SFC being at a distance from those who have an incentive to bias the forecast.

2. Role of the SFC Prior to the Publication of the Scottish Government Forecasts

The Committee would welcome views on whether:

- the Commission should exert significant influence over the forecasts at the same time as providing an assessment of their reasonableness?
- the Commission should have a role throughout the year in scrutinising the Scottish Government’s work in developing models and methodologies to produce its forecasts?
- the Commission should carry out its assessment of the Scottish Government forecasts either before or after publication?
- the Commission should be required to send a copy of its report on its assessment of the forecasts to Ministers prior to publication and, if so, how far in advance?

Comments:

To be able to provide a well-informed assessment of the reasonableness of the forecasts, the SCF should have full access to the Scottish government’s models and methodologies throughout the year. And scrutiny/assessment should be a collaborative and iterative process. The SFC should continuously communicate with the Scottish government and civil servants to make its opinion as to methodology and assumptions known.

Formally, the SFC should have enough time to evaluate the Government’s forecasts before they are delivered to Parliament and made public. After the publication this would place intolerable political pressure on the SFC and more likely to lead to suspicion rather than trust which is essential. To work out modalities, we recommend creation of a Forecast Liaison Group (as per the OBR MoU) headed by the SFC but involving the civil servants working on the forecast. We also believe that the SFC should be required to send a copy of its report to the Scottish Government prior to publication for Ministers to prepare their response. A decision about how far in advance should be agreed upon by the initial members of the SFC and the Scottish Government.
3. Additional Functions

The Committee would welcome views on whether:

- the Commission should have a wider role in assessing the sustainability of Scotland’s public finances such as adherence to fiscal rules and, if so, should the Bill be amended now to reflect this?
- the Bill should be amended to include assessment of mechanisms for adjusting the block grant?
- there should be a legislative requirement for the Scottish Government to prepare a charter for budget responsibility and the Commission should have a role in assessing adherence to the charter?

Comments:

In our view the SFC should have a wider role in assessing the sustainability of Scotland’s public finances. This will become more important as the process of fiscal devolution continues and the Scottish Government gets more powers. Moreover, we emphasises that the fiscal framework (yet to be decided) would benefit greatly from a single set of independent forecasts. As we mentioned above we would prefer the SFC to produce the fiscal forecasts rather than merely assess the reasonableness of forecasts.

We would also add to the list of additional functions: assessment of adherence to fiscal rules, and medium-to-long term sustainability of public finances. Currently, a focus on the short-term prevents an assessment and mitigation of the impact of important factors that have long-run effects, such a demographic change. It is also more important to have a dynamic view in the light of the new borrowing powers. A dynamic view of public finances will also require the production of forecasts of the future block grant, based on the adjustment principle agreed by the Scottish Government and HM Treasury. We do not believe that it is for the SFC to assess the block grant – that is a political decision. We understand that any allocation on the basis of the formula will be remains under the Westminster government.

It is important to future-proof the Bill as much as possible. We welcome the requirement for “affirmative procedure” to modify the functions of the SFC as a means to preserve its independence. Due to this, all currently envisaged functions should be included in the Bill from the outset. We also support the view that Parliament should be allowed to propose changes to the SFC functions.

4. Right of Access to Information

The Committee would welcome views on:

- is the right of access in the Bill robust enough?
- is there a need to include a requirement for a MoU on the face of the Bill?
• **what principles should underpin the working arrangements between the Commission and the Scottish Government and other relevant public bodies?**
• **the process and timings for the Commission’s engagement with the Scottish Government and how this should be set out in the MoU?**
• **the process and timings for the Commission’s engagement with HMRC and the OBR and how this should be set out in the MoU?**

**Comments:**

Cooperation and confidence between the SFC and the Scottish Government will be essential. Therefore, it is important to be as clear as possible from the outset about operational procedures. Taking into the account the important role of the MoU for the independence of the OBR, we would recommend a MoU be included in the Bill.

Within the Fiscal Liaison Group (Chaired by the SFC) the key relevant public bodies ought to be included. It would be for the Liaison Group to set the time schedule for the SFC engagements with the relevant public bodies. The Head of the SFC would be required to report of a Parliamentary Committee to scrutinise the operation of the Fiscal Liaison Group. The SFC should have a right to request resources and, importantly, the right to access of relevant information and an explanation for any questions the SFC may have for making its judgement.

We believe it is important to specify how the SFC forecast responsibilities will interact with the OBR responsibilities. The OBR forecasts are part of the UK economic framework. It is unreasonable for the SFC to produce a macroeconomic forecast for Scotland that is conflicting with the OBR forecast. Therefor we believe that SFC should take the OBR forecast as given. The SFC should have the right to an explanation of the OBR forecast and its implications for the Scottish economy. This can form a part of the MoU.

**5. Appointment of Members and Staff**

The Committee would welcome views on whether:
• the proposed appointment and removal procedures are adequate for ensuring the independence of Commission Members?
• Ministers should determine the period of office of each Member or should it be specified in the Bill?
• appointments should be for one fixed term or should there be an option for a further term?
• should the Commission determine its own staffing arrangements on the basis of terms and conditions of employment agreed firstly with Ministers?

**Comments:**
We are not expert in the Public Appointment (Scotland) Act so we defer judgement. However, the success of the OBR depends heavily on the personalities chosen and this cannot easily be legislated for. First, we suggest that member of the SFC should not have had any supportive involvement with the Scottish Government. Second, the Chair must also be someone who can command confidence and cooperation with the Scottish Government. The SFC requires external credibility from independence but also cooperation with the authorities will be essential.

The fixed term of office of members of the SFC should be specified in the Bill. It should fall outside of the electoral cycle overlapping consecutive administrations. We believe that there should be an option for a member to serve for two consecutive terms. The main reason for this is a small pool of people with sufficient level of skills. This has been raised as a concern for long-term success and sustainability of the OBR in the first external review of the organisation. And in the case of Scotland the constraint could be more pressing. Two 5-year terms should be enough for a new generation of highly skilled fiscal professionals to emerge.

We agree that the SFC should determine its own staffing arrangements subject to terms and conditions of employment agreed with the Scottish Government.

6. **Resources**

The committee would welcome views on:

- the overall costs set out in the FM;
- the number of staff;
- the remuneration and assumed time commitment of Commission members;
- the likely costs of expanding the Commission’s role to include an assessment of key aspects of Scotland’s fiscal framework such as the Scottish Government’s adherence to fiscal rules.

**Comments:**

The costs and staff and remuneration outlined in the FM appear satisfactory, assuming that the SFC will have the right to request resources, information and explanation for the purposes of carrying out its duties as described in question 4.

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1 Kevin Page (2014) “External review of the Office for Budget Responsibility”.