22nd February 2016

Mr Kenneth Gibson MSP
Convener
Finance Committee
By email

Dear Kenneth,

Thank you for your letter of February 3rd asking for views of the Scottish Fiscal Commission (SFC) on relevant aspects of the Finance Committee’s Report on Draft Budget 2016-17. As most of the recommendations in the Report are directed to Government, we have selected those paragraphs which pertain directly to the SFC.

¶88 The Report states “The Committee was also told by the SFC in oral evidence that the forecasters used the last complete year of outturn data for the LBTT forecasts. The Committee asks why this does not appear to be mentioned in either the Scottish Government’s methodology paper or the SFC’s report.”

In para 3.24 of the SFC’s Report on Draft Budget 2016-17, we note in relation to residential LBTT “… the outturn data for 2015-16 do not feed into the forecast either”. Similarly, in para 3.46 we state “As with residential LBTT forecasts, the above outturn data are not used in the forecasts generated for the 2016-17 Draft Budget”. Instead the residential LBTT forecast extrapolates the last annual data available for prices and transactions, as discussed in our paras 3.1 and 3.2 for residential LBTT. In the case of non-residential LBTT, para 3.36 discusses which data are used to form the base from which forecast revenues are extrapolated.

¶107 The Finance Committee Report asks for clarification as to whether the SFC is asked to agree the forecasting methodology prior to the production of the official forecasts and what happens if it does not agree.

The SFC would refer the Committee to the statements in our letter to you of February 9th – “… the Commission at no point agrees a forecast or a methodology. The Government is fully responsible for both; the SFC provides commentary on both”. Further, “the Commission does not reach agreement with the SG, either behind-the-scenes, or publicly…….Indeed, the SFC does not tell the SG that we judge its forecasts to be reasonable, or not, until we finally publish our Report”.

¶163 The Finance Committee Report proposes that “The SFC should also provide an assessment of the buoyancy forecast and how it is calculated”. Para 161 discusses how the forecasted buoyancy has changed since the last Draft Budget and wonders “… why this information was not included in the SFC’s Report”.

To a great extent, this information was included. In the SFC Report, in section 5, paras 5.1-15, we assessed the buoyancy forecast, described how the methodology underpinning it has changed since last year, how data on planning applications were considered as a means of enhancing the forecast, and suggest a possible means of improving the cyclical adjustment that is contained in the forecast.
We did not, however, detail each and every step of the Scottish Government’s forecast method as we did not realise that the Scottish Government, unlike the other devolved taxes, would not publish its own methodology paper for this tax.

¶196 In para 196, the “Committee reiterates its view that the SFC should have a role in monitoring the Scottish Government’s long-term investment commitments …”

As we have stated both in written and oral evidence, the SFC will take on whatever responsibilities the Parliament reasonably wishes it to carry.

We hope these comments are helpful but if you would like views on any other part of your Report, please do come back and let us know.

Sincerely yours,

Lady Susan Rice