1. Thank you for your letter asking for views on the Scottish Government’s proposal for an independent fiscal body “to provide independent assurance to the Government and the Parliament on what might be generated from the taxes being devolved under the Scotland Act”. Here are some personal reflections, based on our own experience:

What should be the role and remit of the new body?

2. This is obviously a matter for the Scottish Government, but there are a couple of important choices to be made:

3. The first is whether you wish the body to produce revenue forecasts of its own for the devolved taxes or whether you wish it to comment on forecasts already published by the Scottish government or another agency. In the former case – which would mirror the role of the OBR – the body would need access to information and analytical capacity from HMRC (in the case of income tax) and from the relevant parts of the Scottish government or Revenue Scotland (in the case of the other taxes).

4. The second choice is whether you wish these revenue forecasts to be based on the same economic determinants that the OBR uses for its UK-wide forecasts or whether you wish to use alternative ones – and again there would be a choice whether to use economic determinants chosen by the Scottish Government or another agency or by the independent body itself.

5. For our part, the OBR will continue to need to incorporate forecasts for the devolved taxes in its own forecasts for the UK public finances. But these may not need to be as detailed and disaggregated as those that the Scottish Government might desire. In any event, in producing these forecasts we would look to maintain our good working relationship with Scottish Government officials and to establish a similarly good relationship with any newly created body.

Should the new body be established on a statutory basis?

6. I think that this is highly desirable. Legal rights and responsibilities are a powerful way to underpin the independence and accountability of independent fiscal institutions, although they are no substitute for the way in which the body conducts itself in practice. Internationally, formal safeguards for independence have come to be seen as increasingly important as fiscal watchdogs have increased in number. Around half of all fiscal councils now have legal provisions for their independence, but this proportion rises to three quarters for those established since 2005.

What powers should the new body have?

7. This obviously depends on the remit that the new body is given. But, whatever the remit, to function effectively it would be essential for the new body to have
access to whatever data and analytical resources within the Scottish government and HMRC were necessary to fulfil it. In our case, the Budget Responsibility and National Audit Act 2011 gives the OBR “right of access (at any reasonable time) to all Government information which it may reasonably require for the performance of its duty”. We are “entitled to require from any person holding or accountable for any government information any assistance or explanation which the Office reasonably thinks necessary for that purpose”.

8. More broadly, the Act gives us “complete discretion in the performance of [our] duty”, as long as we perform it “objectively, transparently and impartially”. I think that it is important that this discretion includes the ability to communicate directly with the general public on matters relevant to its remit, without being constrained to do so purely through formal administrative or parliamentary channels. For example, it should be able to state publicly when it believes that its views are being misrepresented or to respond publicly when its analysis or conclusions were challenged.

Should such a body be appointed by and accountable to the Executive or the Parliament or both?

9. Again this depends to a considerable degree on the remit. The members of the Budget Responsibility Committee of the OBR are appointed by and accountable to both the Chancellor of the Exchequer and the Treasury Select Committee of the House of Commons, although I regard our ultimate responsibility as being to the general public. It would be difficult for us to be accountable purely to Parliament, because we have a responsibility to engage with the Executive on a confidential basis ahead of Budgets and Autumn Statements to deliver forecasts and analysis on a timescale and in a form that allows tax and spending policy decisions to be made based on them. So the answer to this question depends in part on whether this body would need to have confidential interactions with the Scottish Government as part of the policy process or whether it would simply be commenting on forecasts and analysis by other bodies that are already in the public domain.

10. Looking internationally, there is no clear consensus on this relationship. At present fiscal councils divide roughly equally between parliamentary budget offices, stand-alone bodies and bodies attached to the executive.

What would be the key objectives for the new body: what should be its key reports / areas of analysis?

11. This is another way of asking what the remit of the body should be. Your letter suggests that the Cabinet Secretary for Finance, Employment and Sustainable Growth envisages a relatively narrow remit focused on an assessment of the likely receipts from the devolved taxes. This mirrors the role of the OBR in terms of revenue forecasting. His comments suggest that the body should not make recommendations on how much revenue the Scottish government should seek to raise or what the structure of the taxes should be. But it would clearly be possible for an independent body to be given that role.

12. In terms of the reports the body produces, the key outputs would presumably be documents explaining the body’s revenue forecasts (or its critique of the Scottish
government’s forecasts). We have also found it useful to produce separate reports looking at the performance of past forecasts.

In the light of the OECD’s suggested principles for independent fiscal institutions, what should be the core principles for the new body?
13. The OBR has helped develop these principles and I very much welcome them. They cover: local ownership; independence and non-partisanship; mandate; resources; relationship with the legislature; access to information; transparency; communication; and external evaluation. I hope that the principles will help fiscal councils resist attacks on their independence by highlighting any deviation from international best practice. At the same time they should also serve to encourage high standards in councils’ own behaviour.

14. Within them, I think that the single most important principle is transparency – both regarding the way that the body operates and in explaining the conclusions that it reaches. It is vital that the body is seen to base its analysis on professional judgement rather than political convenience, even if people disagree with the particular conclusions it reaches – as some no doubt will.

15. I hope that this is of some help. In case it is of interest or further help, I discussed a number of these issues in greater detail – in the OBR context – in my spring lecture to the Institute and Faculty of Actuaries earlier this year. It can be found here: (http://budgetresponsibility.independent.gov.uk/wordpress/docs/Lecture_May-2013.pdf)