Finance Committee

1st Report, 2014 (Session 4)

Report on proposals for a Scottish Fiscal Commission

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Finance Committee

Remit and membership

Remit:

1. The remit of the Finance Committee is to consider and report on-

   (a) any report or other document laid before the Parliament by members of the
       Scottish Executive containing proposals for, or budgets of, public expenditure
       or proposals for the making of a tax-varying resolution, taking into account any
       report or recommendations concerning such documents made to them by any
       other committee with power to consider such documents or any part of them;

   (b) any report made by a committee setting out proposals concerning public
       expenditure;

   (c) Budget Bills; and

   (d) any other matter relating to or affecting the expenditure of the Scottish
       Administration or other expenditure payable out of the Scottish Consolidated
       Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament
   on the timetable for the Stages of Budget Bills and on the handling of financial
   business.

3. In these Rules, "public expenditure" means expenditure of the Scottish
   Administration, other expenditure payable out of the Scottish Consolidated Fund and
   any other expenditure met out of taxes, charges and other public revenue.

   *(Standing Orders of the Scottish Parliament, Rule 6.6)*

Membership:

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Malcolm Chisholm
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Committee Clerking Team:

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The Committee reports to the Parliament as follows—

INTRODUCTION

1. The proposal for the establishment of an independent fiscal body in Scotland arises out of the fiscal powers being transferred under the Scotland Act 2012. In evidence to the Finance Committee (“the Committee”) on 1 May 2013, the Cabinet Secretary for Finance, Employment and Sustainable Growth (CSFESG) stated—

“As a consequence of the land and buildings transactions tax, the landfill tax and the Scottish rate of income tax, we will acquire a set of revenue-raising responsibilities. My view is that Scotland will require an independent forecasting body that can provide independent assessment to the Government and the Parliament of what might be generated as a consequence of those taxes. I am considering how that should be established.”

2. The CSFESG stated it is his intention that such a body is established prior to the implementation of the newly devolved taxes in April 2015.

3. The purpose of this report is to set out the recommendations of the Committee in relation to the role, establishment and operation of the Scottish Fiscal Commission (SFC).

BACKGROUND

Principles

4. The Organisation for Economic Cooperation and Development (OECD) state that there is a growing trend among OECD countries to establish independent fiscal institutions (IFIs). While “the roles, resources, and structures of these institutions are extremely diverse” the OECD has nevertheless identified 22 principles for IFIs. These principles which are included in the OECD’s written submission are grouped under 9 headings—

• local ownership;
• independence and non-partisanship;
• mandate;
• resources;
• relationship with the legislature;
• access to information;
• transparency;
• communications;
• external evaluation.

5. In response to questioning from the Committee as to which of these principles could be viewed as being of greatest importance the OECD explained—

“They are interconnected, and although they do not all appear under the heading of independence and non-partisanship, many of the principles seek to reinforce independence and non-partisanship as well as transparency. I would therefore highlight independence, non-partisanship and transparency as the most important principles.”

6. The CSFESG stated that: “It will be critical to a new Scottish fiscal commission’s effectiveness and credibility that it is independent of Government and seen to be so.” He suggested that the independence of the new body would be dependent on both formal safeguards and the general conduct of the commission and its members. The formal safeguards should include the appointment process, protection of financial resources and a public statement of the working relationship between the SFC and the Scottish Government.

7. However, Robert Chote, Chairman of the Office for Budget Responsibility (OBR) suggested that while there are formal ways of demonstrating independence “the absolutely crucial issue is transparency in not only the process and the nature of our interactions with officials but the outputs.”

8. The Committee recommends that it is essential that the SFC should be independent and seen to be so.

9. The Committee recommends that the SFC adheres to the 22 OECD principles and in particular, the principles of independence, non-partisanship and transparency.

MODELS OF RELEVANT FISCAL BODIES IN OECD COUNTRIES

10. The Committee notes that the role and remit of IFIs varies significantly across OECD countries. However, the CSFESG has indicated that the remit of the SFC will, under the current constitutional arrangements, be limited to a role in forecasting the devolved taxes and the Scottish Rate of Income Tax (SRIT). He also indicated that the new body could also have a role in forecasting Non-Domestic Rates Income (NDRI).

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11. The OECD identifies three different options for such a forecasting body—

- To produce the official forecasts (e.g. UK);
- To produce alternative forecasts to the Government (e.g. United States and Canada);
- To provide an opinion on Government forecasts (e.g. Ireland and Sweden).

12. Robert Chote stated in his written submission that there are two important choices to be made in relation to the role and remit of the new body. First, whether it will produce its own tax revenue forecasts or whether it will comment on forecasts already published by the Scottish Government. Second, whether these forecasts will be based on the OBR’s economic determinants or by economic determinants produced by the Scottish Government or by the SFC or by some other agency.

13. When asked whether the new forecasting body would carry out the forecasts or comment on the Scottish Government’s forecasts the CSFESG stated that he “had not come to a firm view.” It is also not clear which body will produce the economic determinants which will be used to inform the tax revenue forecasts. The OECD points out that choices “will have to be made as to which economic determinants to use, which may be the same or may well differ from those used by the OBR.” In any case the OECD suggests that the SFC “should provide a full discussion of the reasoning behind the economic determinants chosen.”

14. The CSFESG also went on to state that “it might be simpler to say that the Government will produce an estimate, and the fiscal commission…can challenge that and comment on whether it is appropriate.” He also appeared to rule out the possibility of the US and Canadian model. This section of the report will, therefore, examine the role and remit of the UK model in contrast with the Irish and Swedish models.

**UK Model**

15. The OBR has been established on a statutory basis through the Budget Responsibility and National Audit (BRNA) Act 2011. Its primary function is to examine and report on the sustainability of the UK public finances. Further details on the role of the OBR are provided in a *Charter for Budget Responsibility* which states that the establishment of the OBR “will enhance the transparency and credibility of the Government’s official forecasts, in part, through the publication of more information than has been made available to the public previously.”

16. Robert Chote explained to the Committee that—

“It is particularly unusual that the UK Government has in effect contracted out to us the task of producing the forecasts that Ministers were previously

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6 Organisation for Economic Co-operation and Development, written submission  
9 *Charter for Budget Responsibility, para 4.8*
required by legislation to produce. That has not happened in a lot of countries, partly because the finance ministries in many of them would be extremely reluctant to have their fingers prised off the task of producing the official forecasts.”

17. The OBR has responsibility for both the economic forecast and the public finances forecast which are published twice a year. The economic forecast must include as a minimum—

- the key assumptions underpinning the forecast;
- the key projections of: GDP and its components; inflation; the labour market; and the current account position of the balance of payments;
- an analysis of the risks surrounding the economic outlook.

18. The public finance forecast must include as a minimum—

- the key determinants underpinning the fiscal forecast;
- projections of the key fiscal aggregates;
- an analysis of the impact of the economic cycle on the key fiscal aggregates;
- an analysis of the risks surrounding the fiscal outlook;
- an assessment of the consistency of fiscal policy with the fiscal mandate.

19. The process for producing the Scottish tax forecasts is outlined in the OBR’s latest economic and fiscal outlook published in December 2013—

- “HMRC officials produced Scottish tax forecasts using a near-final pre-measures UK economic forecast. The BRC and OBR staff discussed these forecasts with HMRC and Scottish Government officials on 21 November; and
- In the final week before the Autumn Statement, HMRC officials provided us with a final set of Scottish forecasts using our final post-measures UK economic forecast and taking into account the effect of Autumn Statement policy measures. Due to the confidentiality of the measures we were unable to involve the Scottish Government in this stage of the process.”

Irish Model

20. The Irish Fiscal Advisory Council (IFAC) was established under the Fiscal Responsibility Act 2012. The remit of the IFAC includes assessing the official macro-economic and budgetary forecasts once they have been published by the Department of Finance (DoF), as well as assessing compliance with some fiscal rules and the government’s overall budgetary stance. In addition, the IFAC is also required since 2013 to endorse the macro-economic forecasts prepared by the DoF. Whereas the assessment is carried out after the forecast is published the

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endorsement is undertaken before the forecast is published. In order to carry out the endorsement the IFAC has started its “own forecasting operation.”

21. In its November 2013 fiscal assessment report the IFAC stated that it “has developed its own forecasting methods and analytical capacity in order to provide a benchmark set of projections against which to judge the Department of Finance’s forecasts.” This means that in “a sense, therefore, Ireland has parallel forecasts.”

22. The Economic and Social Research Institute (ESRI) also publishes a forecast each quarter, as well as less frequent long-term forecasts. It is the only institution in Ireland to have a publicly-available fully-fledged large-scale macroeconomic model of the Irish economy. Its forecasts, however, are not an official input into the Government’s official forecasts.

Swedish Model

23. The Swedish Fiscal Policy Council (SFPC) was established by the newly elected liberal-conservative government in 2007 without the support of the three main opposition parties. However, since 2011 the SFPC has the support of seven out of eight political parties in the Swedish Parliament (the Riksdag). It is a government agency directly accountable to the Ministry of Finance and was established “as a complimentary institution to other, previously well-established bodies.” These include the National Institute of Economic Research (NIER) which is a “government financed agency that regularly produces and publishes independent macroeconomic as well as fiscal forecasts.” The SFPC is physically located at the NIER.

24. The SFPC stated in written evidence that its remit “is not to make economic forecasts or budget estimates but instead primarily to assess and make independent judgements about how well the government maintains and adheres to the fiscal framework.” This includes two core fiscal rules: a surplus target for the public sector and an expenditure ceiling for the government.

25. The SFPC fulfils its remit primarily through the publication of a report, Swedish Fiscal Policy, which is presented to the Government no later than 15 May each year. The Government’s Budget Bill is published in September and the parliamentary budget process takes place between September and December. As such, the SFPC’s annual report is “mainly focused on ex post analysis.” At the same time the SFPC’s “potential influence on the Government’s policies work over longer time periods than the annual process.” While the SFPC has no formal relationship with the Riksdag, the Committee on Finance does take evidence from it on the annual report.

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15 Swedish Fiscal Policy Council written submission para 4
16 Swedish Fiscal Policy Council written submission para 5
17 Swedish Fiscal Policy Council written submission para 11
26. While the remit of the SFPC does not include producing forecasts, it has reviewed and reported on the quality of the forecasts and the underlying models used by the government. For example, in its 2013 report the SFPC stated that—

“the 2013 Budget Bill was based on a macro forecast for 2013 that deviated sharply from other institutions’ forecasts. In the Council’s opinion, significant Swedish Fiscal Policy deviations from other forecasters should be reported and justified in detail in the budget bills.”\(^ {18}\)

27. The SFPC stated that “we do not feel that we have to do forecasting” because this is being done independently by the NIER. The SFPC’s scrutiny of the Government’s forecasts is “more of an armchair perspective.”\(^ {19}\) The International Monetary Fund (IMF) points out that the SFPC has a “limited role” in relation to forecasting. The influence of the SFPC is indirect and it has no “formal power” or formal role in the budget process.\(^ {20}\)

DEVELOPING A SCOTTISH FISCAL BODY

Role and Remit

28. The CSFESG stated in correspondence with the Committee that—

“A final decision has still to be taken about the precise arrangements for delivering an annual independent assessment of the Government’s forecasts, as part of consideration about the role of the Scottish Fiscal Commission. However, I would envisage that such an independent assessment should be available for the Committee’s consideration each Autumn, with respect to the Draft Budget for 2015-16 onwards.”\(^ {21}\)

29. The revised Written Agreement between the Committee and the Scottish Government states that—

“In respect of the two devolved taxes, the Draft Budget will include a commentary on the expected income, including tax receipt forecasts and the assumptions, rates and thresholds on which they are based. The commentary will also reflect the views of the Scottish Fiscal Commission on the level of receipts. To aid scrutiny of the Scottish Ministers’ proposals, it is anticipated that the Commission will also publish separately its views on the forecast position (the precise arrangements for this will be a matter for the Commission once established, in discussion with the Scottish Government and the Scottish Parliament).”\(^ {22}\)

\(^ {18}\) http://www.finanspolitiskaradet.se/download/18.11165b2c13cf48416debd69/1378219230983/Summary+2013.pdf  
\(^ {20}\) Case Studies on Fiscal Councils – Functions and Impact, International Monetary Fund, pages 41-42  
\(^ {21}\) http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/71399.aspx  
\(^ {22}\) http://www.scottish.parliament.uk/S4_FinanceCommittee/Written_agreement_with_SG_-_Revised_December_2013.pdf
30. While it is not clear what is meant by “reflect the views” of the SFC, the Written Agreement does suggest that the independent commission will provide its views to the government on its forecasts prior to the publication of the draft budget. The Committee notes that this proposal is different to the Swedish and Irish model whereby the commentary is provided after the forecasts are published. This raises questions regarding the role of the SFC prior to the publication of the Scottish Government’s forecasts and these are discussed in more detail in the section on access to data and information below.

31. The Committee also notes that it is not clear what the role of the SFC will be in relation to commenting on the economic determinants underpinning the tax revenues forecast. In Sweden the SFPC relies heavily on the independent forecasts of other institutions such as the NIER in commenting on the Government’s forecasts. In Ireland the ESRI publishes a macro-economic model of the Irish economy and the IFAC has started to produce its own forecasts as a benchmark in judging the Government’s forecasts. Given the absence of similar organisations providing independent macro-economic and fiscal forecasts in Scotland, it is unclear what wider data and information the SFC would be able to draw on in commenting on the Scottish Government’s forecasts.

32. With regards to the role and remit of the SFC the Committee recommends—

- the Scottish Government should consider the option of inviting the SFC to produce the official macro-economic and fiscal forecasts for Scotland;

- however, if the remit is to provide a commentary on Scottish Government forecasts, it is essential that to ensure its independence, the SFC should have no role in producing the forecasts;

- as the OBR produces Scottish tax forecasts twice a year, the SFC should also provide a commentary twice a year which should include the views of the SFC on the economic determinants underpinning the tax revenue forecasts;

- the SFC should also be asked to comment twice a year on the Scottish Government’s forecasts for NDRI including the economic determinants underpinning the forecasts;

- the remit should include the option to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections;

- the role and remit should be clearly set out in legislation with further details in relation to how these are fulfilled set out in a Charter;

- the role and remit should be considered following any further extension of the Parliament’s fiscal powers.
Forecasting SRIT Receipts

33. The CSFESG indicated that the SFC will have a role to play in forecasting SRIT. However, in his response to the Committee’s report on the implementation of the financial powers within the Scotland Act 2012, he stated that the SRIT forecasts will be provided by the OBR. It is not clear, therefore, what this role would be given that income tax will remain a reserved power and the OBR will continue to have responsibility for producing the forecasts for SRIT. The current arrangements are set out in the Memorandum of Understanding (MoU) between the Scottish Government and HMRC which states—

“Arrangements for forecasting of SRIT receipts by the Office for Budget Responsibility (OBR), which will be incorporated into the calculation of SG’s total budget for each year, and the mechanism for making funds available to SG, are matters for agreement between SG and HMT, and will be set out in a separate document.”

34. Robert Chote stated in evidence to the Committee that “One must differentiate between the Scottish rate of income tax and other devolved taxes.” He points out that the former will continue to be operated by HMRC and that it “will be hard for a Scottish institution to bring more information to bear than that which HMRC already has available.” He explained that the OBR is heavily dependent not just on access to data but on the analytical capacity of HMRC. While it is the OBR which publishes the forecasts “it is HMRC that has the expertise and actually turns the handle.”

35. He also suggests that there would be “a particular issue” if the Scottish Government or SCF wished to produce a forecast for SRIT that was “based on a completely different view of how the economy might evolve.” This would require HMRC to provide the analytical capacity to “investigate what SRIT produces under that alternative economic scenario.”

36. The Committee notes that under the current arrangements HMRC will produce the revenue forecast for SRIT based on economic determinants provided by the OBR. It is not clear, therefore, what role, if any, the SFC or the Scottish Government will have in producing or commenting on the revenue forecast for SRIT.

37. The Committee asks the CSFESG to explain what the role of the Scottish Government and the SFC will be in relation to the forecasting of SRIT revenues and whether there has been any discussion with HMRC and the OBR regarding how this will work in practice.

Forecasting the Devolved Taxes

38. The CSFESG stated in his response to the Committee’s report on the implementation of the financial powers in the Scotland Act 2012 that as—

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“regards responsibility for producing forecasts for the devolved receipts, I see that resting with the Scottish Government, since we will be best placed to produce forecasts based on knowledge of the operation of the taxes and on Scottish data and experience. Such forecasts would of course be subject to assurance by the proposed Scottish fiscal commission.”

39. Robert Chote stated in his written submission that “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.” In previous correspondence with the Committee he indicated that the OBR forecasts would be consistent with their own economic assessments and this is likely to mean “adopting or modifying the receipts forecasts produced by the Scottish authorities.”

Access to Data and Information

40. The OECD principles recommend that “access to information be guaranteed in legislation” and that “any restrictions on access to information be defined in legislation.” The statutory right to information was also emphasised by a number of other witnesses including the Auditor General for Scotland (AGS) and the Scottish Centre on Constitutional Change. Sebastian Barnes who sits on the IFAC explained to the Committee that a fiscal commission that “does not have a good right” to information “will spend an unbelievable amount of time chasing it.”

41. The BRNA Act 2011 provides the OBR with “right of access (at any reasonable time) to all Government information which it may reasonably require for the performance of its duty.” Robert Chote suggests that for the SFC “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.”

Memorandum of Understanding (MoU)

42. Sebastian Barnes suggests that there “should also be a memorandum of understanding between institutions about what information will be shared” although he points out that this can be complicated. Robert Chote points out that while the BRNA Act 2011 provides for the right of access to information the detail is set out in a MoU. The MoU provides “a transparent framework for cooperation” between the OBR and HM Treasury, HMRC, and the Department of Work and Pensions (DWP). The relationship is based on three guiding principles—

- Accountability and transparency;

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27 Response from the Cabinet Secretary for Finance, Employment and Sustainable Growth, 8 January 2014
28 Office for Budget Responsibility, written submission, para 5
29 Letter from Robert Chote 11 November 2013
30 Scottish Parliament, Official Report, 4 December 2013, Col. 3427
31 Scottish Parliament, Official Report, 4 December 2013, Col. 3434
32 Budget Responsibility and National Audit Act 2011 (2011 c.4), section 9
33 http://www.scottish.parliament.uk/S4_FinanceCommittee/OBR.pdf
34 Scottish Parliament, Official Report, 4 December 2013, Col. 3434
35 Memorandum of Understanding April 2011
Effective co-ordination;

Regular information exchange.

43. The MoU states that the OBR will “need to draw on forecasting and analytical resources across Government.” HMRC provide forecasts of tax revenues based on “economic determinants provided by the OBR and the judgements and assumptions of the OBR’s Budget Responsibility Committee.” HMRC also monitors receipts against these forecasts.\(^{36}\)

44. There is also a MoU between the IFAC and the Department of Finance in relation to the “endorsement function.” This includes agreed timings for the endorsement process as follows—

- The DoF will provide the IFAC secretariat with a preliminary set of forecasts for informal discussion no later than 15 working days before the budget;

- Following informal discussion, the DoF will formally meet with the IFAC, no later than 10 working days before the budget, and present its “provisional final” macroeconomic forecasts;

- Any revisions to the “provisional final” forecasts following these discussions or other factors are provided to the IFAC at least two working days before the deadline for endorsement;

- An endorsement is provided via a formal letter no later than 5 working days in advance of the budget and is made public on budget day;

- In the event that the IFAC were to conclude on a preliminary basis that it had significant reservations regarding the “provisional final” forecasts these should be communicated immediately and informally to the DoF;

- If, following further discussions, the IFAC is not able to endorse the forecasts, the Chair would write to the DoF outlining the reasons no later than 5 working days prior to the budget and this letter is made public on budget day.

45. The Committee recommends that the SFC should have a right of access (at any reasonable time) to all Scottish Government and Revenue Scotland information and analytical capacity which it may reasonably require for the performance of its duty. The right of access should be established on a statutory basis and the detail set out in a MoU.

46. The Committee recommends that it is essential that any contact between the SFC and the Scottish Government and Revenue Scotland should be based on a transparent framework of co-operation. The basis of the working relationship should be set out in a MoU.

\(^{36}\) Memorandum of Understanding, April 2011
47. The MoU should include the procedure and timings for the SFC to submit its views to the Scottish Government on its provisional forecasts (prior to publication) and the procedure and timings for dealing with any differences of opinion. It is expected that such views will be made publicly available.

48. The Committee recommends that given the OBR will continue to carry out the UK wide forecasts a MoU is agreed between the OBR and the SFC.

49. The Committee also recommends that if the SFC will have a role in forecasting SRIT revenues then it will require a similar right of access to all HMRC information and analytical capacity which it may reasonably require for the performance of its duty. This should be set out in a MoU between HMRC and the SFC.

Relationship with the Government and Parliament

50. The OECD suggests fiscal bodies should submit reports to parliament in time to contribute to relevant legislative debate and provide evidence to the budget committee (or equivalent) to provide responses to parliamentary questions.

51. The Committee emphasises that a key element of the SFC’s independence will be the extent to which it is accountable to both the Government and the Parliament. It is also important to recognise, as Robert Chote suggests, that the level of accountability “depends very much on the body’s exact remit.”37 The AGS makes a similar point. She stated that if the SFC is responsible for producing the official forecasts then it would need to “have a close line of accountability to Government.” However, if its role is to comment on the Scottish Government’s forecasts then “the line of accountability to Government would be less important.”38

52. The AGS also emphasised that “if it is to be an independent body, it must have very clear accountability to Parliament.”39 The OECD states that it is normal for independent fiscal bodies to “send their reports to parliament and their leadership participates in hearings before relevant parliamentary committees, even when there is no formal requirement to do so.”40

53. The Committee notes that the level of accountability of the SFC to the Scottish Government is very much dependent on its role and remit. In particular, it is dependent on the role which the SFC may have in relation to the Scottish Government forecasts prior to publication.

54. The Committee recommends that all reports which the SFC produces should be laid before the Scottish Parliament.

40 OECD written submission
FORMAL SAFEGUARDS

55. As noted at paragraph 6 above the CSFESG identified a number of formal safeguards which would uphold the independence of the SFC. This section of the report examines each of these safeguards.

Appointment Process

56. In Scotland, ministerial appointments to public bodies are governed by the Code of Practice established under the Public Bodies and Public Appointments etc. (Scotland) Act 2003. Under the appointments process set out in the Code, Ministerial appointments do not require any input from the Parliament. However, the CSFESG has indicated that there is a role for both Ministers and the Parliament in the appointment process for the SFC. He stated that—

“For this new model, a different appointments process will clearly be taken forward because, at the very least, I cannot see how people can be appointed to the body and how its independence can be protected without the consent of Parliament in some way, whether through an interaction with the Finance Committee or by parliamentary resolution.”

57. This is a view which is supported by much of the evidence which the Committee received. For example, Audit Scotland state in their written submission that there is a case for involving both the Parliament and the Executive in the appointment of the senior members of the SFC. The OECD principles include provision for the role of the relevant parliamentary committee in the appointment and dismissal process.

58. The Chairman of the OBR is appointed under the Budget Responsibility and National Audit Act 2011. This states that the chair and 2 other members of the five member board are appointed by the Chancellor with the consent of the Treasury Committee. Prior to that the recruitment process is carried out in the same way as for any other major public appointment. The other two non-Executive members of the OBR are nominated by the Chairman of the OBR and appointed by the Chancellor.

59. In relation to the current Chair, the Treasury Committee carried out a pre-appointment hearing prior to publishing a report which concluded: “We are satisfied that Robert Chote has the professional competence and personal independence to be Chair of the OBR.”

60. The Committee recommends that all members of the SFC are appointed by Ministers under the provisions of the Public Bodies and Public Appointments etc. (Scotland) Act 2003 but that the appointments should also be subject to the consent of the Parliament on the recommendation of the Finance Committee. The Finance Committee should also have the option to hold a pre-appointment hearing and will be required to report to the Parliament.

43 http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/476/47602.htm#evidence
Length of Appointment

61. The OECD principles state that the “term lengths, number of terms and the criteria and process for dismissal be specified in legislation.” The AGS gave the example of her own appointment which is for 8 years with no option for re-appointment. The Chairman of the OBR is appointed for 5 years with the option of a further 5 years if agreed by both the Chancellor and the Treasury Committee. His appointment cannot be terminated without the consent of the Treasury Committee.

62. The CSFESG stated that he is “firmly of the view that no individual should ever be reappointed” to the SFC. He also stated that a “term of office would be somewhere between four and six years” and that the “appointment process and timetable must be entirely separate from the political cycle.”

63. The Committee recommends that under the existing constitutional arrangements there should be 3 part-time members of the SFC appointed for normally no more than 5 years for a single term whose appointment cannot be terminated without the consent of the Parliament on the recommendation of the Finance Committee. The initial terms should be staggered to ensure some continuity within the SFC and the appointment process should always be separate from the political cycle.

Resources

Finance

64. The OECD identifies a number of factors that can enhance the independence of fiscal institutions including “a separate budget line and multiannual funding commitments.” The OECD also emphasise that resources must be sufficient to allow the body to fulfil its remit “in a credible manner.”

65. The funding arrangements for the OBR are set out in a framework document drawn up by HM Treasury. HM Treasury has provided the OBR with a multi-year budget for the Spending Review period and this is included in a separate budget line.

66. The CSFESG stated that is “important that we maintain a sense of proportion” and that the SFC “provides the appropriate level of assurance to Parliament and the public and remains cost effective in its operation.” He went on to say that given the current constitutional arrangements it would not be appropriate to establish a fiscal commission on the same scale as those in independent countries.

67. The Committee recommends that the funding for the SFC should be allocated on a multi-year basis within the Spending Review period and should have a separate level 3 budget heading in the Draft Budget.

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44 OECD written submission
47 http://budgetresponsibility.org.uk/wordpress/docs/obr_framework040411.pdf
Staffing
68. The OECD principles include the power to “hire and dismiss staff in accordance with local labour laws.”

69. Robert Chote stated that a “key point, which brings me back to the independence issue, is that the OBR has complete control over our employment policy.” He went on to state that OBR staff are not on secondment but are civil servants in the same way as civil servants working for other government departments.

70. The Committee welcomes the confirmation of the CSFESG that the SFC will have the ability to appoint its own staff.

External Evaluation
71. The OECD recommends that all fiscal bodies should develop a mechanism for external evaluation of their work – to be conducted by local or international experts

72. The Committee recommends that the Scottish Governments sets out the arrangements for external evaluation of the work of the new fiscal body by an appropriate independent expert organisation.

CONCLUSION
73. The Committee very much welcomes the Scottish Government’s proposals to establish an independent SFC. The Committee recognises that the initial scale and role of the new body needs to be proportionate with the current constitutional arrangements. However, at the same time, it is essential that the role and remit is sufficient to ensure that the SFC can operate independently of the government.

74. The Committee notes that there are currently no other organisations within Scotland providing independent fiscal and macro-economic forecasts and the Scottish Government may wish to consider allocating this role to the SFC.

75. The Committee also welcomes the commitment to bring forward legislation to establish the SFC on a statutory basis and invites the Scottish Government to consider the findings of this report in drafting the Bill and in drawing up the interim measures for the operation of the SFC.

ANNEXE A: ORAL AND WRITTEN EVIDENCE

28th Meeting, 2013 (Session 4) Wednesday 13 November 2013

ORAL EVIDENCE
Robert Chote, Chairman, Office for Budget Responsibility.

30th Meeting, (Session 4) Wednesday 27 November 2013

ORAL EVIDENCE
Dr Jim Cuthbert, Professor Campbell Leith, Professor of Macroeconomics, University of Glasgow; and Professor Jeremy Peat, Fellow, Royal Society of Edinburgh.

31st Meeting, (Session 4) Wednesday 4 December 2013

ORAL EVIDENCE
Sebastian Barnes, Counsellor to the Chief Economist, Lisa von Trapp, Policy Analyst, Organisation for Economic Co-operation and Development.

Professor David Bell, University of Stirling; Dr Angus Armstrong, Head of Macroeconomics and Finance Group; Dr Katerina Lisenkova, Senior Research Fellow, The National Institute of Economic and Social Research; and Professor Peter McGregor, University of Strathclyde.

32nd Meeting, (Session 4) Wednesday 11 December 2013

ORAL EVIDENCE

1st Meeting, (Session 4) Wednesday 08 January 2014

ORAL EVIDENCE
Caroline Gardner, Auditor General for Scotland, Russell Frith, Assistant Auditor General, Audit Scotland.

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth.

WRITTEN EVIDENCE

- Andrew Hughes Hallet (566KB pdf)
- Audit Scotland (121KB pdf)
- Austrian Parliamentary Budget Office (146KB pdf)
- CPB Netherlands Bureau for Economic Policy Analysis (449KB pdf)
- Dr. Jim R. Cuthbert (87KB pdf)
- Office for Budget Responsibility (223KB pdf)
- Organisation for Economic Co-operation and Development (415KB pdf)
- Portuguese Public Finance Council (9KB pdf)
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