

Finance Committee

Scottish Fiscal Commission Bill

Submission from IMF

Response

Forecasting tax revenues

☐ there is a need for independent forecasts in addition to the Scottish Government official forecasts?

No. There is no need for the SFC to present its own forecasts. The key requirement is that it is able to provide an independent assessment of the official forecasts. Inevitably, in doing so, it will (probably) form a view about its own forecasts but these do not need to be necessarily presented. One may even argue that it may be damaging to have a different set of point forecasts (rather than a range) as this may be seen as an alternative set to the official forecasts. Be this as it may, there is no need to have the FSC to present its own forecasts.

☐ the Commission should have the capacity and resources to make its own forecasts even if its role is to assess the official forecasts?

Yes. It is not easy to distinguish between the capacity of assessing the official forecasts and the capacity to make forecasts. In order to have the capacity to assess the forecasts, you must also have the capacity to make forecasts. Of course, I am assuming that the SFC would have access to the information that is used by the government to make its own forecasts.

☐ the Scottish Government forecasts should be subject to sensitivity analysis carried out by the Commission?

Yes, it is good practice to subject official forecasts to sensitivity analysis. Most fiscal councils do, as it is essential to evaluate the margin of error around a baseline forecast, which would be important even if the baseline were unbiased.

☐ the Commission should be able to develop its own forecasting methods and analytical capacity in order to provide a benchmark set of projections?

I am not sure how this question differs from the second one. I argued that the capacity to assess forecasts also implies the capacity to make forecasts. The latter must be based on some forecasting methods. There is no need, however, to have

the capacity to develop new forecasting methods (rather than using methods developed by others, e.g. academic research centers).

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

☐ **the Commission should exert significant influence over the forecasts at the same time as providing an assessment of their reasonableness?**

Clearly, there is a trade off here. An early intervention would give the SFC more influence on the forecasts in the short run, but would involve some degree of ownership, which would reduce its independence over the medium term. On balance I believe that the main task of the SFC should be to assess the forecasts rather than trying to influence them before they are presented.

☐ **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?**

It depends on what it is meant by having "a role". There is nothing wrong in having contacts and discussions throughout the year on models and methodologies, but it should not become a formal scrutiny.

☐ **the Commission should carry out its assessment of the Scottish Government forecasts either *before* or *after* publication?**

After their publication. If it were before, then the forecasts could be changed and this would essentially mean that the SFC could influence the forecasts. Incidentally, I do not see why the SFC should publish its assessment the very same day the official forecasts are published. If they were published, say, one-two weeks later, this would give the SFC time to react to last minute changes in official forecasts.

☐ **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?**

No. Again, I think the SFC should step in after the forecasts are published.

Additional Functions

☐ **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?**

Yes, it is common practice for fiscal councils to have responsibilities that go beyond the assessment of forecasts and, definitely, assessing the adherence of fiscal rules is often part of those responsibilities. And, if so, it would be preferable to amend the bill to ensure that the SFC has a clear remit to do so.

□ the Bill should be amended to include assessment of mechanisms for adjusting the block grant?

No, at least it is not a critical extension of the remit. This issue has to do with the amount of resources that would be made available from the center, an issue related to the extent of fiscal decentralization, not so much to the soundness of fiscal policy in Scotland. Moreover, the SFC is there to assess the implementation of fiscal policy by the Scottish government, while decisions on the block grant do not depend on the Scottish government.

□ 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?

It could be useful to have a charter, as a way of building consensus on responsible fiscal policies. Personally, though, I would not regard it as a sine qua non. If there is a charter, the SFC should assess adherence to it.

Right of Access to Information

□ is the right of access in the Bill robust enough?

I would think so, but I am not too familiar with the institutional features of public finances in Scotland to know whether the list of institutions under 7 (2) is sufficiently broad.

□ is there a need to include a requirement for a MoU on the face of the Bill?

Yes. Typically MOUs are necessary to provide more detailed information on access to information and other issues relating to the interaction between a fiscal council and the government.

□ what principles should underpin the working arrangements between the Commission and the Scottish Government and other relevant public bodies?

The most important things are transparency in the way the SFC and the Government interact, including in the rules of engagement, and Independence. The latter does not mean antagonizing each other (the two institutions will inevitably have to cooperate), but it is clear that the SFC will have to be seen as truly independent.

□ the process and timings for the Commission's engagement with the Scottish Government and how this should be set out in the MoU?

It is critical to have regular access of information by the SFC and the availability of the government to answer questions and providing clarifications on fiscal developments to the SFC throughout the year and not only in the proximity of the budget.

□ the process and timings for the Commission's engagement with HMRC and the OBR and how this should be set out in the MoU?

Ditto. As to the OBR, I would think that the interaction with the OBR would not raise concerns about the independence of the SFC and could be less formal than the interaction with the Scottish government.

Appointment of Members and Staff

□ the proposed appointment and removal procedures are adequate for ensuring the independence of Commission Members?

The involvement of the Government in the appointment of Commission members should in my view be avoided (although it is not unusual in some fiscal councils). The significant ministerial involvement currently envisaged by the legislation seems excessive.

□ Ministers should determine the period of office of each Member or should it be specified in the Bill?

It should be definitely specified in the Bill.

□ appointments should be for one fixed term or should there be an option for a further term?

It would be preferable to have only one term, to ensure full independence, but the term should be sufficiently long to ensure continuity.

□ should the Commission determine its own staffing arrangements on the basis of terms and conditions of employment agreed firstly with Ministers?

I am not sure what it is meant by "staffing arrangements" If it is meant the employment conditions (salary first of all) of its employees, it should be left to the discretion of the SFC but within a clear employment framework determined by legislation (preferably) or by the government.

Resources

☐ the overall costs set out in the FM;

The amount of resources depends clearly on the mandate. This said, an overall cost of 850,000 pounds is not much compared to the cost of many fiscal councils

☐ the number of staff;

I would think that a staff of some 10-15 people would be appropriate, including to evaluate the application of fiscal rules.

☐ the remuneration and assumed time commitment of Commission members;

The remuneration per day seems to be appropriate. I would think that a couple of days a week would be preferable (a bit more than the 1.5 days currently envisaged).

☐ 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.

See above.