



The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

28th Meeting, 2013 (Session 4)

Wednesday 13 November 2013

The Committee will meet at 10.00 am in Committee Room 1.

1. **Decision on taking business in private:** The Committee will decide whether to take item 4 in private.
2. **Draft Budget Scrutiny 2014-15:** The Committee will take evidence on the Draft Budget 2014-15 from—

Liam McArthur MSP, member of the Scottish Parliamentary Corporate Body, Paul Grice, Clerk/Chief Executive, and Derek Croll, Head of Financial Resources, Scottish Parliament.

3. **Inquiry into proposals for an independent fiscal body:** The Committee will take evidence by video conference from—

Robert Chote, Chairman, Office for Budget Responsibility.

4. **Defective and Dangerous Buildings (Recovery of Expenses) (Scotland) Bill:** The Committee will consider its approach to the Financial Memorandum.

James Johnston
Clerk to the Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
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The papers for this meeting are as follows—

Agenda item 2

Paper by the Clerk

FI/S4/13/28/1

Agenda item 3

Paper by the Clerk

FI/S4/13/28/2

Agenda item 4

PRIVATE PAPER

FI/S4/13/28/3 (P)

Finance Committee

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

Scrutiny of the Draft Budget 2014-15: Scottish Parliamentary Corporate Body budget proposal

Purpose

1. The purpose of this paper is to invite the Committee to consider the budget proposal submitted by the Scottish Parliamentary Corporate Body (SPCB) for 2014-15. A copy of the proposal is attached. Fulfilling an undertaking made to the Committee last year, this year's proposal includes trading accounts for the Parliament shop.

Background

2. The expenditure plans of any body which has a prior call on the Scottish Consolidated Fund will reduce the total amount available to Scottish Ministers for inclusion in their plans. The Parliament's budget falls into that category.

3. The Committee considers and reports on the SPCB's draft budget as part of its wider budget scrutiny. The SPCB's expenditure proposals will appear in the Budget Bill when introduced.

The budget proposal

Headline figure

4. The SPCB has identified a total budget requirement of £90.8 million, including a one-off amount of £2.06 million in relation to the Electoral Commission costs for public awareness activity and guidance in relation to the 2014 referendum. Excluding the Electoral Commission funding, the remaining £88.8 million budget requirement represents a cash terms increase of £1.9 million against the current year's budget.

5. The budget requirement for revenue and capital expenditure is £76.8 million which is £1.7 million higher than the current year.

6. The letter from the Presiding Officer notes that this budget proposal is the final year of the SPCB's four year strategy to make a significant reduction in the Parliament's budget and states "we have successfully delivered a reduction of 11.0% in real terms over this period."

Pay budget

7. Members will note from schedule 2 that in 2014-15 there is an increase in staff pay costs of £338,000 and an increase in MSP pay costs of £113,000. These increases are in line with the increase announced by IPSA in respect of MPs and the 2013-15 pay deal for parliament staff. There are further increases forecast for 2015-16 in both these pay areas of £446,000 and £227,000 respectively.

8. Commentary on staff and MSPs pay is given in schedule 3.

Capital expenditure

9. Members will note from schedule 2 that the capital expenditure bid is £2.1 million, a reduction of £900k (30%) from the budget for the current year. This is in line with the indicative forecast provided last year. The Committee may also wish to note the letter from the Presiding Officer which confirms “that the External Security Facility, which we discussed with you last year in the context of the 2013-14 budget submission, has been completed on time and within budget.”

10. Schedule 3 highlights that capital expenditure for 2014-15 will be on areas such as broadcasting equipment, refresh of IT facilities and the digital parliament programme. The indicative budget for 2015-16 suggests a further reduction in this budget to £1.4 million.

Property costs

11. Schedule 3 provides a breakdown of the property costs budget which has increased by £413,000 over 2013-14. The biggest increases are in rates (£223,000) and maintenance costs (£250,000).

12. In previous years the Committee has raised the building maintenance budget with the SPCB in the previous two years. Members will note that the commentary in schedule 3 states “the nature of maintenance work is cyclical in line with FM’s 25 year maintenance plan.” The maintenance costs in the 2014-15 proposal have increased 13.6% compared to the costs for the current year.

Contingency

13. Members will note that the budget provides for a contingency of £1 million, representing a 100% increase in the figure for 2013-14. This follows on from a reduction of 60% to £500k in 2013-14 from 2012-13.

Commissioners and Ombudsman

14. The proposed budget for Officeholders in 2014-15 is £8.16 million, an increase of £101,000 on the budget for 2013-4. The letter from the Presiding Officer states that officeholders’ budgets have reduced by 16.7% in real terms against the 2010-11 baseline.

15. In 2014-15 the budgets for four of the six officeholders are projected to increase with percentage increases ranging from 0.7% to 6.9% (there is no increase for either the Standards Commission or the Ethical Standards Commission). Members may wish to note that the largest increase in this budget area is for the Information Commissioner for which the 6.9% increase equates to £96,000.

16. Schedule 4 of the SPCB budget submission shows how each officeholder is performing against budget.

17. In its scrutiny of the Draft Budget 2013-14, the Committee sought information from the SPCB about an increase in the contingency within this area of the budget which had been increased from £250,000 to £300,000 in respect of potential relocation costs. The commentary in schedule 3 for the 2014-15 budget notes that the contingency has been reduced back down to £250,000 as the potential relocation costs are “no longer an issue.”

18. In its report on the Draft Budget for 2013-14, the Committee asked the SPCB to provide an update in its budget for 2014-15 on potential savings through the possible relocations of all or most commissioners to operate “out of one hub”. The budget proposal does not set out this information and members may wish to seek clarification from the SPCB on this.

Relocation of the bar facility

19. During evidence last year, the Committee sought clarification from the SPCB as to the financial benefits of the relocation of the previous bar facility and the opening up of the space previously occupied by that facility for events that could not otherwise have been accommodated elsewhere in the building. The SPCB explained that, in terms of financial benefits—

“**Paul Grice:** Income in this area would show up almost as a negative subsidy on the catering contract, and that is how it would be accounted for... We would expect the income to flow through, if we are successful, in reduced subsidy and reduced costs.

When we appear before you next time, I hope that we will be able to say something a bit more precise on that.”

“**Liam McArthur:** The driver for the change was a need to address a cost that we were continuing to bear through the subsidy. That was the principal motive behind the decision. As Paul Grice indicated, the revenue-raising opportunities always involved a balance.”

20. Members may wish to note that the budget for running costs which “mainly consist of the SPCB’s outsourced contracts for the provision of goods and services” is projected to decrease by £66,000.

Collectivised agreements

21. Last year, the Committee raised with the SPCB the potential for cost savings to be realised through putting in places collectivised agreements for the provision of services such as power and telecoms utilities.

22. The SPCB commented on the progress that had been made—

“**Paul Grice:** The first and most positive bit of progress we have made is on telecoms costs. We are pretty close to being able to write to all members about that. Through that initiative, we can offer members who use BT the ability to benefit in their areas from the beneficial corporate rate that we get...

I would be more than happy to update the committee more generally on progress, perhaps next year.”

Conclusion

23. The Committee is invited to consider the SPCB’s budget proposal.

**Catherine Fergusson
Senior Assistant Clerk to the Committee**

Annex A

Scottish Parliamentary Corporate Body Budget submission 2014-15

The above document can be accessed via the link below:

[Scottish Parliament Corporate Body Budget submission 2014-15.pdf](#)



The Scottish Parliament
Pàrlamaid na h-Alba

The Presiding Officer
Rt Hon Tricia Marwick MSP

Kenneth Gibson MSP
Convener, Finance Committee
The Scottish Parliament
T3.60

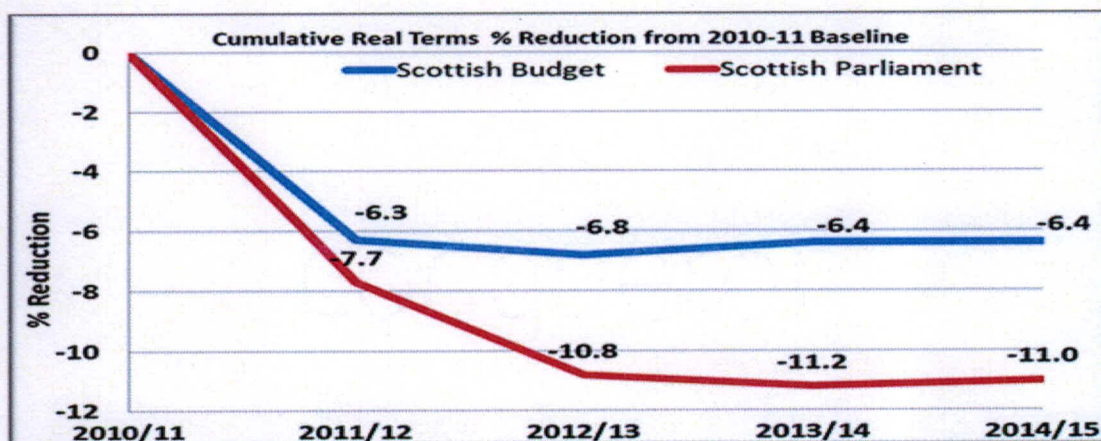
7 November 2013

Dear Kenneth

SPCB BUDGET SUBMISSION FOR 2014-15

I am pleased to submit our budget bid for the financial year 2014-15, which demonstrates how the SPCB is playing its part in responding to the financial pressures facing public sector finances. This is the final year of our four year strategy to make a significant cut in the SPCB's budget and we have successfully delivered a reduction of 11.0% in real terms over this period.

As advised to the Finance Committee in previous years, the SPCB has committed to reduce its budget in line with the real-terms reduction in the Scottish Budget over the period of the UK Comprehensive Spending Review (CSR). The chart below shows the projected real terms reductions in the SPCB's budget¹, measured against the equivalent reductions in the overall Scottish Budget for the four years from the 2010-11 baseline through to 2014-15.



¹ Real terms savings are calculated by reference to latest published Treasury GDP deflators. SPCB budget figures exclude capital charges and non-cash items. The Scottish Budget figures show Total DEL expenditure. In order to provide a like for like comparison with previous years, the figures shown in this graph exclude the one-off funding requirement of £2.06m in 2014-15 for the Electoral Commission in relation to the Referendum Bill.

We started a resource planning exercise in early 2010 to identify saving options well before the CSR was published. This enabled the SPCB to target the majority of its required savings towards the start of the four year period. We first advised the Finance Committee of our projected budget savings for 2011-12 through to 2014-15 in November 2010 and, following a successful change management programme to deliver these targeted savings, our current budget proposals once again deliver the figures we committed to in those indicative forecasts.

Our drive to improve efficiency has been achieved against a backdrop where the demands on the Parliamentary Service have remained strong. Indeed, we expect those demands to increase, as we continue to support the Parliament in meeting the heavy workload expected over the remainder of this Session.

Headline figures

The SPCB's budget submission for 2014-15 includes a one-off amount of £2.06m in respect of the funding the Electoral Commission's costs for public awareness activity and guidance in relation to the 2014 referendum. The Scottish Independence Referendum Bill, which sets out this budgetary requirement for the SPCB in its financial memorandum, is currently undergoing parliamentary scrutiny. In order to provide a like for like comparison with previous years, the figures shown in the attached schedules paper separate out this funding requirement wherever possible.

The SPCB has identified a total budget requirement, including capital charges and non-cash items, of £90.8m for 2014-15 as shown on the attached schedule 1. Excluding the one-off funding costs for the Electoral Commission, the underlying total of £88.8m represents an increase in cash terms of £1.9m (2.1%) compared to the current year budget of £86.9m. Schedule 1 also sets out indicative estimates for the 2015-16 financial year.

The directly controllable costs of the Parliamentary Service are budgeted at £43.7m for 2014-15, an increase in cash terms of £1.2m (2.7%) compared to the current year.

Excluding the capital charges and non-cash items, which do not represent a cash funding requirement, and the Electoral Commission funding as noted above, the total SPCB budget submission for revenue and capital expenditure is £76.8m, £1.7m (2.2%) higher than the approved 2013-14 budget. This is fully in line with the indicative 2014-15 forecast advised to the Finance Committee last year. Relative to the baseline year of 2010-11, the proposed budget for 2014-15 represents a reduction in real terms of 11.0%.

I attach an analysis of our budget bid (schedule 2) together with a briefing paper (schedule 3) and further analysis schedules to assist the Finance Committee in its scrutiny of our budget bid.

Approach to setting the budget

In addition to the savings resulting from our change management programme, which examined every aspect of the Parliament's operations, the Finance Committee will be aware that we have held our operating costs down through a 2 year pay freeze to March 2013, which covered Parliament staff, Members and Members' expenses and we have followed this with on-going pay restraint, below the level of inflation.

We also continue to manage project expenditure within our existing resources. In this regard, we can confirm that the External Security Facility (ESF), which we discussed with you last year in the context of our 2013-14 budget submission, has been completed on time and within budget. Our proposals for next year include a number of projects we deferred in order to ensure that we met the costs of the ESF from within existing resources in 2012-13 and 2013-14.

Commissioners and Ombudsman

Recognising the need to reduce expenditure in line with other public sector budgets, the SPCB set the Parliament's Commissioners and Ombudsman the same savings target as for the Parliamentary Service and, in aggregate, the Officeholders' budgets have now reduced by £0.9m (9.9%) in cash terms since the 2010-11 baseline, equivalent to a real terms reduction of 16.7%.

At £8.2m, the 2014-15 budget proposals for funding of the Commissioners and Ombudsman accounts for 10.9% of the SPCB's net revenue expenditure budget. This is an increase of £101k (1.3%) compared to the equivalent 2013-14 budget and represents a decrease of 0.6% in real terms. The individual submissions in respect of each Officeholder are set out in schedule 4.

We have a challenging responsibility to balance the financial impact on the public purse of these budget proposals with the need to ensure that Officeholders are funded to undertake their statutory responsibilities.

Indicative Forecasts for 2015-16

Schedule 2 also provides an analysis of our indicative revenue and capital expenditure forecast for 2015-16 to include the latest year covered by the June 2013 UK Spending Review. This shows a 1.0% increase in the SPCB's net revenue and capital expenditure in cash terms (equivalent to a 0.8% reduction in real terms), directly in line with the movement for the overall Scottish Budget.

The SPCB's proposal will deliver cumulative savings of 11.7% in real terms over the five years since the 2010-11 baseline and incorporates a real terms reduction of 14.9% in the directly controllable costs of the Scottish Parliamentary Service. While this represents a significant reduction in our resources, we are well placed to meet the challenge as a result of the detailed resource planning process that we have

undertaken and the resultant improvements in efficiency. Nonetheless, the challenges ahead remain considerable.

We will be happy to expand on any aspects of our budget submission when we give evidence to you on 13 November.

Yours sincerely

A handwritten signature in blue ink, reading "Tricia Marwick". The signature is written in a cursive style with a large initial 'T' and a long, sweeping underline.

TRICIA MARWICK

SCOTTISH PARLIAMENTARY CORPORATE BODY**BUDGET SUBMISSION 2014-15**

	Approved Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Indicative Forecast 2015-16 £'000
A) REVENUE			
Net Revenue Expenditure (Schedule 2)	72,148	74,711	76,179
Electoral Commission - 2014 Referendum		2,060	
Net Revenue Expenditure - Including Electoral Commission		76,771	
B) CAPITAL			
Capital Expenditure (Schedule 2)	3,000	2,100	1,400
C) TOTAL EXPENDITURE EXCLUDING CAPITAL CHARGES AND NON CASH ITEMS (A+B)			
Net Revenue and Capital Expenditure - Excluding Electoral Commission	75,148	76,811	77,579
Net Revenue and Capital Expenditure - Including Electoral Commission		78,871	
D) CAPITAL CHARGES AND NON CASH ITEMS			
Total Capital Charges and non cash items (schedule 3)	11,764	11,964	12,264
E) TOTAL EXPENDITURE INCLUDING CAPITAL CHARGES AND NON CASH ITEMS (C+D)			
Total Net Expenditure - Excluding Electoral Commission	86,912	88,775	89,843
Total Net Expenditure - Including Electoral Commission		90,835	

<u>Net Revenue and Capital Budget</u>	Approved Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Indicative Forecast 2015-16 £'000
Revenue Expenditure			
Recurring Annual Costs			
Staff Pay	21,977	22,315	22,761
Staff Related and General Costs	808	794	794
Property Costs	7,995	8,408	8,596
Running Costs	<u>7,022</u>	<u>6,956</u>	<u>7,095</u>
	37,802	38,473	39,246
Projects and One-Off Costs			
Revenue Projects	<u>1,500</u>	<u>2,400</u>	<u>2,400</u>
Total Parliamentary Service Costs	<u>39,302</u>	<u>40,873</u>	<u>41,646</u>
MSPs' and Officeholders' Costs			
MSP Pay	11,250	11,363	11,590
MSP Office, Staff and Accom. Costs etc.	13,261	13,555	13,870
Commissioners & Ombudsman Costs	<u>8,059</u>	<u>8,160</u>	<u>8,323</u>
Total MSPs' & Officeholders' Costs	<u>32,570</u>	<u>33,078</u>	<u>33,783</u>
Contingency	500	1,000	1,000
Total Revenue Expenditure	<u>72,372</u>	<u>74,951</u>	<u>76,429</u>
Less:- Income	(224)	(240)	(250)
Total Net Revenue Expenditure	<u>72,148</u>	<u>74,711</u>	<u>76,179</u>
Capital Expenditure			
Capital Expenditure	3,000	2,100	1,400
Total Capital Expenditure	<u>3,000</u>	<u>2,100</u>	<u>1,400</u>
Total Net Revenue and Capital Expenditure	<u>75,148</u>	<u>76,811</u>	<u>77,579</u>
Electoral Commission - 2014 Referendum One-Off Costs		<u>2,060</u>	
Total Net Revenue and Capital Expenditure - Including Electoral Commssion		<u>78,871</u>	
Memorandum:-			
Directly Controllable Parliamentary Service Costs			
Total Expenditure less MSPs' and Officeholders' Costs	42,578	43,733	43,796

Finance Committee Briefing 13 November 2013 - SPCB Net Revenue and Capital Budget

The net revenue and capital expenditure of the SPCB is forecast to increase from £75.1m in 2013-14 to £76.8m in 2014-15, an increase of £1.7m (2.2%) in cash terms. The main elements of this are:-

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
Staff Pay	21,977	22,315	338	1.5%	<p>Staff pay including use of contractors is budgeted at £22.3m – an increase of £338k (1.5% in cash terms) on the 2013-14 budget. Since the baseline year of 2010-11, the staff pay budget has reduced by £0.8m (3.5%) in cash terms. (Equivalent to a real terms reduction of 10.8%).</p> <p>The proposed staff pay budget for 2014-15 incorporates the uplift to pay scales as agreed as part of the 2 year pay deal for 2013-15 (a 1% increase on 1/4/13 followed by a 2% increase on 1/4/14) and takes account of the projected movement of staff through the incremental pay scales on the SPCB's single pay spine. This is a prudent budget assumption, reflecting the contractual entitlements for existing staff.</p> <p>We know from experience that staff turnover reduces the net cost of incremental pay progression. This is therefore reflected in a vacancy factor, which is applied to the staff pay budget as a credit. The vacancy factor is budgeted at £0.4m or 2% of salaries, in line with the figure budgeted for the current financial year.</p>

Schedule 3

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
Staff Related Costs	808	794	(14)	(1.7%)	Staff-related costs, which include travel & expenses and training, are budgeted at £0.8m, £14k (1.7%) less than the current financial year. Given the need to maintain levels of service as overall staff numbers are reduced, in order to achieve the real terms reductions in the staff pay budget, it is important to ensure that adequate budgets remain available for staff support and redeployment, particularly through training in new systems and skills.
Property Costs	7,995	8,408	413	5.2%	<p>Property Costs comprise :- <u>£k</u></p> <ul style="list-style-type: none"> • Rates 4,747 • Maintenance 2,088 • Utilities 952 • Cleaning 500 • Other <u>121</u> Total <u>8,408</u> <p>Property Costs of £8.4m show a net increase of £413k (5.2%) on the 2013-14 budget. Rates, at £4.7m, account for over half of total property costs and £223k of the increase.</p> <p>Maintenance costs are projected to increase by £250k (13.6%) from £1,838k in 2013-14 to £2,088k in 2014-15. The nature of this work is cyclical in line with FM's 25 year maintenance plan, though we aim to smooth the expenditure</p>

Schedule 3

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments												
					profile as much as possible. All other property costs remain broadly at 2013-14 levels for next year.												
Running Costs	7,022	6,956	(66)	(0.9%)	Running costs of £7.0m are projected to decrease by £66k (0.9%) over the 2013-14 budget levels. Running costs mainly consist of the SPCB's outsourced contracts for the provision of goods and services. They also include the SPCB's engagement initiatives in respect of Parliament led events and contributions to the Business Exchange and Futures Forum.												
Revenue Projects	1,500	2,400	900	60.0%	<p>Project expenditure is budgeted separately from recurring annual costs to provide greater transparency in our management reporting. The revenue expenditure projects planned for 2014-15 comprise:-</p> <table><tr><td>Digital Parliament Programme</td><td>£1,000k</td></tr><tr><td>Building Related Changes</td><td>£650k</td></tr><tr><td>25 Year Maintenance</td><td>£425k</td></tr><tr><td>Voltage Optimisation</td><td>£250k</td></tr><tr><td>Other</td><td><u>£75k</u></td></tr><tr><td>Total</td><td><u>£2,400k</u></td></tr></table>	Digital Parliament Programme	£1,000k	Building Related Changes	£650k	25 Year Maintenance	£425k	Voltage Optimisation	£250k	Other	<u>£75k</u>	Total	<u>£2,400k</u>
Digital Parliament Programme	£1,000k																
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Voltage Optimisation	£250k																
Other	<u>£75k</u>																
Total	<u>£2,400k</u>																

Schedule 3

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
MSP Pay	11,250	11,363	113	1.0%	The MSP pay budget for 2014-15 provides for a 1% increase on 1 April 2014, in line with the increase for next year which has already been announced by IPSA in respect of MPs.
MSP Staff and Office Costs	13,261	13,555	294	2.2%	<p>Members' Costs are budgeted at £13.6m. This represents an increase of £294k (2.2%) on the 2013-14 budget and is calculated on the following assumptions;</p> <p>The budget for Members' Expenses and the associated limits for provisions within the scheme will be uprated on 1 April 2014 from the agreed 2013-14 level in line with the uprating provisions of the Members' Expenses Scheme.</p> <p>Not all members will claim the full entitlement, reflecting our experience of the scheme to date.</p>
Commissioners & Ombudsman	8,059	8,160	101	1.3%	<p>The proposed 2014-15 budget for Officeholders amounts to £8,160k, representing an increase of £101k or 1.3% on the approved 2013-14 budget. The analysis is shown in schedule 4.</p> <p>This represents a reduction of 9.9% in cash terms on the baseline of 2010-11, which exceeds the overall target we had set. In real terms, the cumulative saving equates to 16.7%.</p>

Schedule 3

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
					The level of contingency provided directly within the Commissioners' and Ombudsman's budget has been reduced back down to £250k (the 2013-14 budget had been increased from £250k to £300k in respect of potential relocation costs, which are no longer an issue).
Contingency	500	1000	500	100%	The proposed contingency of £1.0m is to cover emergency and unexpected or unquantified new cost pressures.
Income	(224)	(240)	16	7.1%	The projected income of £240k is all for the Parliament shop and represents a 7.1% increase against the 2013-14 budget, recognising the beneficial impact of relocating the shop to the building exit. We also continue to seek opportunities to increase the revenue generated from catering services and events. However, it should be noted that these are accounted for as an offset against running costs, rather than as income.
Capital Expenditure	3,000	2,100	(900)	(30%)	<div>The capital expenditure projects planned for 2014-15 comprise:-</div> <div><div>Broadcasting Equipment</div><div>IT Network Refresh</div><div>SPS Desktop Refresh</div><div>IT Equipment</div></div> <div><div>£835k</div><div>£425k</div><div>£340k</div><div>£250k</div></div>

Schedule 3

	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
					Radio Communication Refresh £150k Digital Parliament Programme <u>£100k</u> Total <u>£2,100k</u>
Total Net Revenue and Capital Budget	75,148	76,811	1,663	2.2%	
Electoral Commission – 2014 Referendum		2,060			The funding requirement for the Electoral Commission comprises:- • Public awareness and reporting £1,860k • Guidance and administration <u>£ 200k</u> Total <u>£2,060k</u>
Total Net Revenue and Capital Budget – Incl Electoral Commission		78,871			

Analysis of Capital Charges and Non-Cash Items (Schedule 1)

Capital Charges and Non-Cash Items	Budget 2013-14 £'000	Budget Bid 2014-15 £'000	Increase / (decrease) £'000 %		Comments
DEL					
Depreciation	10,700	10,900	200	1.9%	Depreciation on the Holyrood Building is calculated on valuation figures. Projected increases to asset values are estimated on RICS building valuation indices.
Audit Fee	64	64	0	0.0%	Minimal change is envisaged to the Audit Scotland audit fee for 2014-15. The budget figures are a small decrease on the actual fee for the SPCB's 2012-13 audit.
Total DEL Capital Charges and non-cash items	10,764	10,964	200	1.9%	
AME					
Pension Finance (net)	1,000	1,000	0	0.0%	The pension finance AME charge represents a provision for potential notional funding costs for the Members' pension fund arising from the movement of actuarial factors.
Total AME capital charges and non-cash items	1,000	1,000	0	0.0%	
Total Capital and non-cash charges DEL + AME	11,764	11,964	200	1.7%	

Commissioners and Ombudsman Budget Bid 2014-15

Schedule 4(a)

Office	Approved Budget 2010/11 Baseline	Approved Budget 2013-14 £'000	Budget Bid 2014-15 £'000	2014/15 Increase/(decrease) vs 2013-14 approved budget £,000	2014/15 Increase/(decrease) vs 2013-14 approved budget %	2014/15 Saving % v 2010/11 baseline in Cash Terms	2014/15 Saving % v 2010/11 baseline in Real Terms
Public Services Ombudsman (see note 1)	3,774	3,207	3,241	34	1.1%	(14.1%)	(20.7%)
Scottish Information Commissioner	1,535	1,394	1,490	96	6.9%	(2.9%)	(10.3%)
Children and Young People	1,350	1,226	1,235	9	0.7%	(8.5%)	(15.5%)
Commission for Human Rights	1,000	909	933	24	2.6%	(6.7%)	(13.8%)
Ethical Standards Standards Commission	888	797	785	(12)	(1.5%)	(11.6%)	(18.3%)
Standards Commission	255	226	226	0	0.0%	(11.4%)	(18.1%)
Total	8,802	7,759	7,910	151	1.9%	(10.1%)	(17.0%)
Central contingency for legal action etc (see note 2)	250	300	250	(50)	(16.7%)	0.0%	(7.6%)
Total	<u>9,052</u>	<u>8,059</u>	<u>8,160</u>	<u>101</u>	<u>1.3%</u>	<u>(9.9%)</u>	<u>(16.7%)</u>

Note 1 - The baseline for 2010-11 was revised upwards by £204k to include costs for water complaints which were transferred from Waterwatch to the Public Services Ombudsman in August 2011.

Note 2 - The amount drawn down against the 2012-13 contingency was £84k in respect of legal costs for the Scottish Information Commissioner (£59k) and maternity cover for the Commission for Human Rights (£25k)

Analysis of Officeholders' 2014-15 budget bids

	SPSO		SIC		CCYP	
	Budget £'000	Bid £'000	Budget £'000	Bid £'000	Budget £'000	Bid £'000
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<u>Revenue</u>						
Staff Costs	2,486	2,579	1,124	1,220	729	759
Staff Related/General Costs	64	55	16	16	51	46
Property Costs	286	285	97	98	96	99
Professional Fees	194	193	32	32	46	43
Running Costs	252	234	122	121	299	288
Income	(80)	(110)	0	0	0	0
<u>Capital</u>	5	5	3	3	5	0
Total	3,207	3,241	1,394	1,490	1,226	1,235

	CHR		ESC		SC	
	Budget £'000	Bid £'000	Budget £'000	Bid £'000	Budget £'000	Bid £'000
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<u>Revenue</u>						
Staff Costs	665	669	545	532	189	190
Staff Related/General Costs	25	49	20	15	13	15
Property Costs	61	60	70	69	4	2
Professional Fees	17	16	119	119	6	7
Running Costs	141	139	40	41	14	12
Income	0	0	0	0	0	0
<u>Capital</u>	0	0	3	9	0	0
Total	909	933	797	785	226	226

SPSO - Scottish Public Services Ombudsman

SIC - Scottish Information Commissioner

CCYP - Commissioner for Children and Young People in Scotland

CHR - Commission for Human Rights

ESC - Ethical Standards Commission

SC - Standards Commission

Schedule 5**SPCB Statement of Financial Position**

	31 Mar 2013 Actual (£'000)	31 Mar 2014 Projected (£'000)	31 Mar 2015 Projected (£'000)
Non current assets			
Holyrood land and buildings	305,219	309,328	308,001
Other fixed assets	6,278	3,179	3,890
Total non current assets	311,497	312,507	311,891
Current assets			
Inventories	259	259	259
Trade and other receivables	1,432	1,432	1,432
Cash and cash equivalents	2,469	1,600	1,600
Total current assets	4,160	3,291	3,291
Total assets	315,657	315,798	315,182
Liabilities (including current and non current)	(18,957)	(16,918)	(16,702)
Assets less liabilities	296,700	298,880	298,480
Taxpayers' equity			
General fund	256,776	251,506	243,475
Revaluation reserve	48,757	56,207	63,838
Pension reserve	(8,833)	(8,833)	(8,833)
Total taxpayers' equity	296,700	298,880	298,480

SCOTTISH PARLIAMENTARY CORPORATE BODY**Shop Trading Accounts**

	Actual 2010-11 £'000	Actual 2011-12 £'000	Actual 2012-13 £'000	Budget 2013-14 £'000	Budget 2014-15 £'000
Sales	228	222	197	224	240
Cost of Sales (1)	132	131	118	135	144
Net Contribution	96	91	79	89	96
Direct Salaries	138	134	84	91	83
Other Direct Costs (2)	4	3	3	4	4
Total Direct Costs	142	137	87	95	87
Net Surplus/(Deficit) after direct costs	(46)	(46)	(8)	(6)	9

Notes

(1) Cost of sales is the cost of items for sale in the shop

(2) Other direct costs are expenditure incurred directly in the operation of the shop such as stationery and credit card and cash uplift charges.

As a result of the Visitor Services Office review, reduced staffing levels in the shop have been implemented during 2012-13 to reduce staffing costs.

This statement does not include general overhead costs, e.g. for a proportion of business rates, utility costs and other operational and support costs.

Finance Committee

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

Inquiry into proposals for an independent fiscal body

Introduction

1. In evidence to the Finance Committee on 1 May 2013 the Cabinet Secretary for Finance, Employment and Sustainable Growth stated that as a consequence of the new financial powers arising from the Scotland Act 2012: "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."¹

2. The Cabinet Secretary has stated that it is his intention to establish the new body prior to the implementation of the newly devolved taxes in April 2015.

3. The Committee agreed to conduct a short inquiry into the proposals at its meeting on 19 June and issued a call for evidence. The Committee has received 12 written submissions and these are available at <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65148.aspx>. SPICe have provided a summary of evidence paper and this is attached, along with the Office of Budget Responsibility submission.

Oral Evidence Sessions

4. The Committee will hold the first of its oral evidence sessions on 13 November when it will hear from Robert Chote, Chairman of the Office of Budget Responsibility, by video conference.

5. Subsequent oral evidence sessions are as follows:

27 November: Jim Cuthbert, Professor Campbell Leith, University of Glasgow;
Jeremy Peat, Royal Society of Edinburgh.

4 December: OECD (by video conference);

Round table panel with David Bell and David Comerford, University of Stirling; Angus Armstrong and Katerina Lisenkova, National Institute of Economic and Social Research and Peter McGregor and Kim Swales, University of Strathclyde.

11 December: Swedish Fiscal Policy Council (by video conference)

8 January: Auditor General Scotland;
Cabinet Secretary for Finance, Employment and Sustainable Growth.

¹ <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8114&mode=pdf>

Defining an Independent Fiscal Institution

6. The OECD suggests a broad definition as follows:

“a publicly funded, independent body under the statutory authority of the executive or the legislature which provides non-partisan oversight and analysis of, and in some cases, advice on fiscal policy and performance.”

7. It sets out a number of principles for Independent Fiscal Institutions, which are summarised below:

Principle	What this means for the Independent fiscal institution
Local Ownership	Needs broad national ownership, with political consensus; designed to suit the circumstances of the host country
Independence and non-partisanship	Distinct from ‘bi-partisanship’, demonstrates objectivity, professional excellence and serves all parties. Leadership appointment is based on technical competence (without reference to political affiliation). Length of term of leadership specified in legislation, along with criteria for dismissal. Term of office divorced from electoral cycle. Leader appointed preferably full time, with strict standards to manage conflicts of interest if part time. Leader to have freedom to hire/fire own staff.
Mandate	Clearly defined in higher level legislation, including the type of analysis and who may request reports. Scope to produce reports at own initiative. Clear links to budget process set out.
Resources	Must be commensurate with the allowing the IFI to fulfil its mandate in a credible manner. Multi-annual funding may further enhance independence and protect from political pressure.
Relationship with legislature	Accountability to legislature set out: eg reporting to parliament, to the budget committee (who may have a role in the appointment of leader)
Access to information	A special duty to guarantee access in legislation, which may be reinforced by protocols etc to ensure full access to relevant information, in a timely manner, with methodologies set out, and at no cost
Transparency	Reports, analysis, underlying data, methodologies should all be published and made fully available. Release dates should be established and all publications in own name
Communications	Effective communications with the media, civil society and other stakeholders is essential
External evaluation	Need to develop a mechanism for review by local and international experts

Office for Budget Responsibility (OBR)

7. The OBR is a non-departmental public body, set up under the UK [Budget Responsibility and National Audit Act 2011](#). This underpinning legislation includes a range of provisions to safeguard the OBR's independence. Its main duty is to examine and report on the sustainability of the public finances, with four main tasks:

- to produce five-year forecasts for the economy and public finances twice a year
- to use OBR public finance forecasts to judge the Government's performance against its fiscal targets
- to scrutinise the Treasury's costing of tax and welfare spending measures
- to assess the long-term sustainability of the public finances.

8. The OBR employs 17 staff, and it has a statutory right to full and timely access to all Government information relevant to its analysis and is able to draw on forecasting and analytical resources across Government.

9. The key points from Robert Chote's submission are as follows:

- Should the fiscal body produce its own revenue forecasts or comment on forecasts already published by the Scottish Government or other agency;
- Should these forecasts be based on the same economic determinants used by the OBR or should the new body use alternative ones;
- Establishing the new body on a statutory basis is highly desirable;
- It is essential for the new body to have access to whatever data and analytical resources within the Scottish Government and HMRC which are necessary to carry out its remit;
- The new body should be able to communicate directly with the general public on matters relevant to its remit;
- Whether the new body should be appointed and accountable to the Executive or the Parliament or both is partly dependent on whether the new body will need to have confidential interactions with the Government;
- At present, there is a broadly similar number of parliamentary budget offices, stand-alone bodies and bodies attached to the executive;
- The OECD principles are welcome and the most important is transparency.

Council of Economic Advisers

10. The Scottish Government's [Council of Economic Advisers](#) was set up to "advise Ministers on how to best position Scotland amongst the world's most competitive economies". The Council draws in high level expertise (on a part time basis) and has access to information (from the Scottish Government). However it is not underpinned by specific legislation, it reports to/advises the Scottish Government. Its sub-group the [Fiscal Commission Working Group](#) has recently published a report on fiscal rules and fiscal commissions: <http://www.scotland.gov.uk/Publications/2013/11/4732/0>

11. The report states that: "international experience suggests that there are a number of key characteristics of effective fiscal commissions:

- Clear local knowledge, and the support of the general public;
- An unambiguous and achievable mandate;

- Independence;
- High levels of technical competence;
- Accountability to the wider public; and,
- Effective communication of their work.”

12. The Working Group’s recommendations include:

- the Scottish Government should establish an independent Scottish Fiscal Commission and ensure that it is in place by the time key tax powers are fully transferred as a result of the Scotland Act 2012.
- drawing upon the examples of the Swedish Fiscal Policy Council and the Irish Fiscal Advisory Council, the Scottish Fiscal Commission should assess Scotland’s long term fiscal position and the Scottish Government’s adherence to its fiscal rules. Such assessments should pay due attention to the resilience of overall economic performance in so far as this can impact on the sustainability of the public finances.
- the Scottish Government should take the necessary measures to ensure the Scottish Fiscal Commission’s independence in order for it to function credibly and effectively, and design its reporting structure in a way that encourages transparency and accountability.

Forecasting the Scottish Taxes

13. The Committee recently published a report on the implementation of the financial powers in the Scotland Act 2012: <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/68801.aspx>

14. The Committee considered a number of issues in relation to the forecast of the Scottish taxes and noted the views of Audit Scotland that “it is important that the Scottish Government and the OBR can show that the forecasts are soundly based and that the reasons for any variances between actual and estimated tax receipts are made clear.” The Committee’s recommendations included:

“The Committee notes that the forecasting and reconciliation of Scottish tax receipts will become integral to the annual budget process. The Committee emphasises that it is essential that the methodology and the data used to calculate these forecasts and reconciliation is published, transparent and open to scrutiny. The Committee also agrees with Audit Scotland that the reasons for any variances between the forecast and actual tax receipts are made clear.”

“The Committee will report separately on its views on the proposed independent forecasting unit for Scotland but emphasises the need for transparency in demonstrating that its forecasts are soundly based as noted by Audit Scotland. The Committee invites the Scottish Government to provide an update on the timing for the establishment of the independent forecasting body and asks whether it is anticipated that it will have a role in forecasting SRIT receipts.”

Conclusion

15. The Committee is invited to consider the above issues in its evidence session with the OBR.

Jim Johnston
Committee Clerk



Finance Committee

Inquiry into proposals for an independent fiscal body

Summary of written evidence received – main themes

Purpose of paper

This paper summarises the main themes arising from the written evidence received by the Finance Committee in response to a call for evidence on the establishment of “an independent forecasting body that can provide independent assessment to the Government and the Parliament” following the new financial powers arising from the Scotland Act 2012. The Cabinet Secretary has stated that it is his intention to establish the new body, referred to by some as the Scottish Office for Budget Responsibility (SOBR), prior to the implementation of the newly devolved taxes in April 2015.

This paper is structured according to the questions asked in the committee’s call for evidence. However, some respondents chose not to respond directly to the questions posed by the Committee. Those comments have been added to the most appropriate set of responses.

In addition, some submissions, such as the CPB Netherlands Bureau for Economic Policy Analysis’ response, only included documentation, which was not specific to the question asked. These are included in the pack of submissions but not referred to in detail in this summary, which is intended to draw out the main themes from the evidence.

Submissions

Submissions were received from:

- Professor Andrew Hughes Hallett, Council of Economic Advisors to the Scottish Government
- Audit Scotland
- Austrian Parliamentary Budget Office (PBO)
- CPB Netherlands Bureau for Economic Policy Analysis
- Office for Budget Responsibility (OBR)
- Organisation for Economic Co-operation and Development (OECD)
- Portuguese Public Finance Council

- Professor Campbell Leith, University of Glasgow
- Professor David Bell
- Royal Society of Edinburgh
- Mostafa Askari, Assistant Parliamentary Budget Office, Economic and Fiscal Analysis, The Canadian Parliamentary Budget Office (Canadian PBO)
- (Slovakian) Council for Budget Responsibility

SUMMARY OF EVIDENCE

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

A number of submissions identified that the **roles and remits of existing fiscal institutions are diverse**. The new body's remit might include:

- Analysis of fiscal policy, fiscal balances and budget proposals
- Forecasting (official forecasts, alternative forecasts, opinion on government forecasts)
- Costing of policy proposals
- Monitoring compliance with fiscal rules and long-term sustainability
- Analytical studies on a pro-active basis and in response to requests from Committees or individual Members
- Analysing deductions from the Scottish block grant and reconciling/correcting past forecasting errors

“The rationale most often offered for a fiscal policy commission is as a mechanism to increase credibility and commitment to a set of sustainable fiscal policies, and to provide a politically impartial monitoring process which is available to the economy as a whole”
(Professor Hughes Hallett)

Related to this a couple of submissions suggested the remit should be a **matter for the Scottish Government** (Austrian PBO, OBR) with outputs being tailored towards the use of the Scottish Government. The Finance Committee could explore whether the new body's functions could be hosted within a consolidated body that includes SPICe (Royal Society of Edinburgh).

It is important to **avoid overlaps with other bodies**, particularly with the OBR.

“Neither the Scottish fiscal council nor the OBR is likely to benefit from a horse-race over the quality of their forecast....however both could gain from a sharing of information and know-how” (Professor Leith)

“A low cost solution for the Scottish Parliament may be simply to adjust the OBR forecasts as required for the Scottish government’s budget process” (Professor Bell)

There could be a focus on issues such as forecasting North Sea Oil revenues (Professor Bell). The OECD flagged up the need to establish a **productive working relationship with the OBR** through a Memorandum of Understanding (MoU) for example (OECD, OBR, Professor Leith).

Given the devolved powers in the Scotland Act 2012, Professor Leith pointed out that “the need for a Fiscal Council in a setting where the budget is essentially balanced is less clear.” Nevertheless, once the Scottish Government has the ability to freely issue debt, the “usual arguments for creating fiscal councils will apply.”

Respondents unanimously noted the need for **independence** endorsed by parliamentary scrutiny and underpinned by **transparency, free access to data** and, according to several submissions, **the use of its own models**. This will guarantee that:

“...although its forecast may be wrong, it will not be wrong because it is constructed to please the government of the day” (Professor Bell)

Some respondents (Royal Society of Edinburgh) recommended that the body have a purely **technical role** on the basis that:

“...all councils are required, *at a minimum*, to make forecasts of their economy’s likely performance, along with ex-ante evaluations of their sustainability and effectiveness and post-mortem assessment of fiscal policies implemented in the past along with the intended or expected outcomes being pursued at the time” (Professor Hughes Hallett)

Other submissions (OBR, Slovakian Council for Budget Responsibility) suggested that the body should in addition have a **normative role** in terms of policy advocacy and look at what should be made to happen, as opposed to what it thinks is going to happen. For example it could make recommendations on how much revenue the Scottish Government should seek to raise or what the structure of the taxes should be. This however runs the risk of “politicising (or giving the impression of having politicised) the commission’s remit” (Professor Hughes Hallett) which may compromise its independence.

A final point made by Audit Scotland concerned the importance of ensuring that the body have a “critical mass of work to enable it to attract suitably talented and experienced people.”

2. Should the new body be established on a statutory basis?

All those who directly responded to this question agreed that the mandate of the body should be clearly defined in legislation.

“A specific statutory basis could assure independence and clarify important questions in advance.” (Austrian PBO)

The Slovakian Council for Budget Responsibility recommended that the body be established specifically through **constitutional law** instead of ordinary legislation in order to avoid being “vulnerable to swings in the politics of the country.”

In line with OECD principles, respondents stated that the following points should be specified in legislation:

- **Mandate:** types of reports and analysis the body will produce, who may request reports and analysis
- Funding source(s)
- Relationship with other government bodies
- Appointment processes: term lengths, number of terms and the criteria and process for dismissal
- Terms of access to information, including restrictions
- Use of resources: models, assumptions, definitions

3. What powers should the new body have?

The submissions highlighted that the body’s powers should be geared towards ensuring independent, transparent and timely analysis of government policies. Particular emphasis was put on the following points:

- **Guaranteed access to information**
- **Use of its own data and models**
- Pro-active remit
- Public and Parliamentary communication
- Autonomy over organisational structure

Respondents stressed that the body should have access to all the relevant data, policy information, technical information, analysis and models that it requires to fulfil its mandate. If it operated in cooperation with the OBR, the two bodies should share information and expertise as suggested by Professor Leith. However Professor Hughes Hallett noted that there are **weaknesses** in relying on outside models and forecasts

“...as it all too easy for the council to be captured by the government or its agencies”.

Notwithstanding “the limitations of available data for Scotland which place constraints on the level of sophistication that can be achieved by the body (noted by Professor Leith), most submissions suggested that the body should have the **power to develop its own framework of analysis, data sources, methodology and definitions**.

Having a **pro-active remit** to produce reports and determine its work programme would also bolster the body's democratic legitimacy.

"Given the complexity of the issues before the Parliament, parliamentarians may not always be able to anticipate and raise relevant questions. Having the flexibility to initiate new projects would give the new body the ability to better serve the Parliament" (Mostafa Askari, Canadian PBO)

The body should in addition have the right to "publish its reports and underlying analysis at **no cost to users**" (Audit Scotland). It should be able to **communicate directly with the general public** "without being constrained to do so purely through formal administrative or parliamentary channels." In particular, it would issue a public warning if it found that fiscal plans were not sustainable (Professor Hughes Hallett).

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

"The key principle of considering appointment and accountability is that independence and non-partisanship are achieved." (Audit Scotland)

"At present fiscal councils divide roughly equally between parliamentary budget offices, stand-alone bodies and bodies attached to the executive" (OBR)

The vast majority of respondents recommended that the body be **appointed by and accountable to the Parliament**. This would not only ensure **freedom from political pressure** and yield **democratic benefits** but would also strengthen the capabilities of the Parliament in relation to the Scottish Government (Professor Bell).

Some submissions noted that the body could be appointed by both the Executive and the Parliament (Audit Scotland) since its recommendations would be relevant to both branches of government. One respondent noted that it could be appointed by the Crown (Royal Society of Edinburgh).

"The answer 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" (OBR)

The Slovakian Council for Budget Responsibility, which is directly funded from the budget of the Slovak central bank, highlighted that the body's **funding should not be linked to the executive**. The Canadian PBO pointed out that "independent analysis by a parliamentary budget office is not always welcome by the Executive" (Mostafa Askari).

Having **appointment terms independent of the electoral cycle** would help ensure independence (OECD).

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

“The aim is to allow for short-run flexibility in a way that adherence to fiscal rules may not allow, but to ensure that this does not jeopardise long-run fiscal solvency” (Professor Leith)

Within this remit, key areas of analysis suggested in the submissions included:

- Revenue and economic forecasting
- Analysis of long-term fiscal sustainability
- Monitoring compliance with fiscal rules
- Analytical studies on forward looking issues e.g. in-depth analysis of new tax measures

Two respondents (OBR, Mostafa Askari of the Canadian PBO) stated that it seemed the Cabinet Secretary for Finance, Employment and Sustainable Growth envisaged a “relatively narrow remit focused on an assessment of the likely receipts from the devolved taxes.”

Most respondents however recommended a **broader mandate** that would include not only fiscal analysis but also economic forecasting. The body could notably look at policies such as **oil prices, employment growth and alternative policies** according to Professor Hughes Hallett.

Depending on its relationship with the **OBR**, the two fiscal bodies could aim to produce a **single consensus forecast**.

6. In the light of the OECD’s suggested principles for independent fiscal institutions what should be the core principles for the new body?

In line with OECD standards, the respondents noted that the core principles of the new body should include:

- Independence, non-partisanship and transparency
- A clearly defined mandate
- Competency-based, non-partisan appointments
- Full access to information
- Publication of freely accessible reports and analysis

The OECD and Audit Scotland both highlighted that the body should have a commitment to quality namely through **external evaluation of its own work**, either through review of selected pieces of work, peer review by another independent fiscal body, annual evaluation of the quality of analysis or a permanent advisory panel or board.

Notwithstanding the above principles, when considering the establishment of an independent fiscal body for Scotland, it is important to bear in mind that this is an idiosyncratic process and that:

“...while a country seeking to establish an [independent fiscal institution] will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed. Regional or international authorities may provide valuable support and protection” (OECD)

Anouk Berthier

SPICe Research

19 September 2013

FINANCE COMMITTEE

INQUIRY INTO PROPOSALS FOR AN INDEPENDENT FISCAL BODY

SUBMISSION FROM OFFICE FOR BUDGET RESPONSIBILITY

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)