

Finance and Public Administration Committee

34th Meeting 2023, Session 6, Wednesday 20 December 2023

Scottish Fiscal Commission: Annual Evidence Session

Purpose

1. The Committee is invited to take evidence from the Scottish Fiscal Commission (SFC) as part of its scrutiny of relevant bodies directly accountable to Parliament.
2. The SFC representatives attending the session are—
 - Professor Graeme Roy, Chair, Scottish Fiscal Commission, and
 - John Ireland, Chief Executive, Scottish Fiscal Commission

Background

3. The SFC and Revenue Scotland are directly responsible to the Parliament and the scrutiny of how they deliver their functions sits within the Finance and Public Administration Committee's remit.
4. The Committee has agreed to undertake regular scrutiny of how these bodies fulfil their respective functions. It agreed, in the first instance to hold annual evidence sessions and that these should take place after the bodies have laid their annual accounts in Parliament.
5. The Committee [wrote to the SFC](#) on 26 October 2023 inviting it to attend the first of these annual evidence sessions on 20 December 2023. The Committee also [wrote to Revenue Scotland](#) on similar terms and its evidence session was held on [5 December 2023](#).
6. The [SFC's Annual Report and Accounts for 2022-23](#) was published in October 2023. The Annual Report encloses a report by the independent auditor, Deloitte LLP, to the SFC, Auditor General for Scotland, and the Scottish Parliament. The auditor concludes that the SFC's financial statements—
 - give a true and fair view of the state of the body's affairs as of 31 March 2023 and of its net expenditure for the year then ended,
 - have been properly prepared in accordance with relevant standards, and
 - have been properly prepared in accordance with legislative requirements and any directions from Scottish Ministers.

SFC functions, composition, and budget

7. The SFC's functions are set out in the [Scottish Fiscal Commission Act 2016](#). The SFC produces independent forecasts and assessments which aim to improve the transparency and scrutiny of Scotland's budget. These include independent economic, tax and social security forecasts and official costings for tax and social security policies.
8. In March 2023, the Commission published its first [report on the long-term fiscal sustainability](#) of the Scottish Government's budget, which informed the [Committee's Pre-Budget 2024-25 scrutiny](#). The Commission intends to publish full sustainability reports every two to three years.
9. The SFC consists of Commissioners with collective responsibility for fulfilling the functions and duties set out in the 2016 Act. These Commissioners are appointed by Scottish Ministers with the approval of the Scottish Parliament.
10. The SFC's Annual Report and Accounts for 2022-23 states that its operational independence is ensured by its position as a non-Ministerial Office, meaning that it is part of the Scottish Administration but not part of the Scottish Government. The report also notes that the SFC has full discretion over how it fulfils its statutory functions, and that this safeguards its independence.
11. The SFC received a £2.303m budget in 2022-23, and its net operating costs were £2.198m, resulting in an underspend of £0.105m. This compares to a budget of £2.005m and operating costs of £1.899m in 2021-22, which resulted in an underspend that year of £0.106m.
12. The Annual Report states that the SFC's biggest category of expenditure is staff costs, which totalled £1.773m in 2022-23. This is followed by shared services (including accommodation costs and audit costs) and Commissioner costs, which totalled £0.231m and £0.135m respectively.

Priorities and measuring outcomes

13. The SFC's [Corporate Plan 2022-25](#) outlines the Commission's four strategic objectives as follows—
 - To provide robust, independent, official forecasts of Scotland's economy, devolved tax revenues and social security spending,
 - To explain what our forecasts and analysis mean for the Scottish Budget,
 - To analyse and explain the medium- and longer-term risks to the Scottish Budget, and
 - To be an effective and efficient organisation with skilled, knowledgeable people.
14. The table on page 10 of the report provides an overview of the SFC's activities and the strategic objectives they contribute towards.

Actions and improvements

Forecasting

15. The SFC's Annual Report states that the Commission's delivery model is designed to ensure that the forecasts it produces are trusted and reliable. Its forecasts are produced by SFC staff, using models developed and maintained by the SFC. The report details the areas in which the Commission undertakes work to refine its models and to ensure the value of the data it uses. These areas are the economy, tax, social security, public funding, and fiscal sustainability.
16. The SFC's forecast evaluation reports provide qualitative and quantitative analysis of the accuracy of the Commission's forecasts and the factors determining the level of accuracy achieved. The SFC's [August 2023 Forecast Evaluation Report](#) (FER) evaluated its December 2021 forecasts of the economy, devolved taxes and social security in 2022-23, comparing them to outturn data. It also evaluated the SFC's 2021-22 forecast of income tax.
17. This FER concluded that, given ongoing uncertainty about regarding the Covid-19 pandemic, and the then unknown consequences of the Russian invasion of Ukraine and the rise in inflation, the SFC was satisfied with the performance of its 2022-23 forecasts for economy, devolved taxes and social security. The FER also notes that the Commission's 2021-22 forecast of income tax underestimated income tax revenues in 2021-22 by 12% due to smaller than expected effects of the pandemic on the economy and an unexpected increase in inflation.

Staffing

18. The average number of whole-time equivalent staff employed by the SFC during 2022-23 was 25.6, compared to 21.0 in 2021-22. Full details of staff costs are available at page 43 of the Annual Report.
19. Staff turnover in 2022-23 was 12%, compared to 22% in 2021-22. The Annual Report explains that this reduction is a result of new staff becoming more settled in their roles, and the Commission anticipating its recruitment needs and attracting suitable candidates to roles.
20. The report notes that the dominance of staffing costs in the SFC's budget, coupled with its small number of staff, means that the Commission's budget is vulnerable to changes in staffing levels.
21. From 3 July 2023, the SFC has reorganised its analytical teams to reflect changing working patterns, additional demands from the fiscal sustainability work and to increase resilience and capacity for strategic analytical work (see page 6 for detail of the changes made).

Hybrid working model

22. The Annual Report explains that the SFC continued its hybrid approach to working in 2022-23, with the majority of staff working from home for at least part of the working week. The report also notes that the SFC's office fully re-opened over 2022-23, and that there has been a steady increase in the numbers of staff working in the office over the year.

Equalities

23. As noted in the Annual Report, the SFC is not yet subject to the Public Sector Equality Duty (PSED) under the Equality Act 2010. The report states that the SFC intends to be subject to the PSED, and that it aims to comply with the spirit of that Act and the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 and 2016 in the intervening period, until it is legally required to do so.

24. The report explains that the SFC considers diversity and inclusion within three facets—

- recruitment of staff and Commissioners,
- how it operates as an organisation, including retention and progression, and
- how it delivers its work to the public.

25. Page 24 of the Annual Report details some of the diversity activities that the SFC has committed to undertake. These include—

- improving the accessibility of the SFC's website,
- increasing the proportion of applicants who are disabled or who do not identify as male,
- increasing the information available to management about the experience of working in SFC,
- introducing more stretching inclusion objectives for staff, and
- implementing a programme of activities to raise awareness of equalities issues.

26. The SFC has also committed to reporting the gender balance of its appearances at Scottish Parliament Committee meetings. Of 15 SFC witness appearances in 2022-23, 20% were female (compared to 14 witness appearances in 2021-22, of which 36% were female).

27. Details of the SFC's recruitment diversity information is included at page 24 of the Annual Report. The report also encloses a staff report which provides details of the SFC's gender balance at page 44, and its gender pay gap is noted at page 45.

28. The Annual Report notes that more work is needed to improve succession planning and to increase the diversity of Commissioners. The report states that

the SFC will focus on developing a plan to address this in 2023-24 before the next round of Commissioner appointments is due to start in mid-2025.

Risk management

29. The Annual Report explains that the SFC's risks are regularly identified, monitored, and assessed in line with its risk management framework by its Senior Management Team, Audit and Risk Committee and Governance Board. The Report notes that this includes consideration of the mitigations for risks, and the longer-term implications for delivery.
30. The Report highlights five key risks for the SFC as follows—
1. **Staffing** – “The Commission cannot deliver its functions effectively because we do not have appropriate staff or Commissioners, or because staff or Commissioners cannot work effectively”.
 2. **Partner organisations** – “Deterioration in relationships with the Commission's partner organisations limits its ability to deliver quality forecasts and reports, through limited access to data and information, or limited time in fiscal event processes”.
 3. **Independence** – “The Commission's political and institutional independence is undermined, or is perceived to be undermined”.
 4. **Corporate systems** – “The Commission's corporate systems are not sufficient to deliver its work (financial systems, IT, shared services and governance”.
 5. **Reputation** – “The Commission suffers a loss of reputation because of its failure to deal with complex contextual change or the perceived quality of its analysis”.
31. Page 11 of the Annual Report details the changes in these risk profiles in 2022-23, stating that risks relating to staffing, independence and reputation decreased throughout the year, the corporate systems risk remained broadly stable and the likelihood of risk relating to partner organisations varied.
32. Full details of the risks the SFC faces, their impact on the Commission's ability to achieve its objectives, how the Commission plans to mitigate them, and how this may affect future plans and performance are presented in the table on page 21 of the Annual Report. The table provides an overview of the SFC's risk outlook for 2023-24, including expectations of significant staffing risks and the potential for a slight increase in corporate systems risks.
33. An internal audit provided by the Scottish Government Directorate for Internal Audit and Assurance provided “substantial assurance” on the SFC's risk management, control and governance arrangements. The SFC's Annual Report states “this means that the Commission's risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible”.

Next steps

34. The Committee intends to hold annual evidence sessions with the Scottish Fiscal Commission and to continue to hear its evidence on an ad hoc basis in relation to other relevant aspects of its work.

Committee Clerking Team
December 2023