

## OECD report on review of the Scottish Fiscal Commission

### Background

1. The Committee is invited to take evidence from the Organisation for Economic Co-operation and Development (OECD) in relation to its [second review of the Scottish Fiscal Commission \(SFC\)](#), which was published on 10 March 2025, together with a [Highlights document](#) which contains key points from their report.
2. The OECD undertook its first review of the SFC at the SFC's request in 2019. This review provided options and recommendations for the SFC, building on the strengths of its existing arrangements and observing challenges. The second review has again been undertaken at the request of the SFC<sup>1</sup>. The report explains that the OECD has evaluated the SFC's progress towards recommendations made in the 2019 Review, identified new challenges faced by the SFC, and looked at how it can better deliver its work. To inform the review, the OECD conducted stakeholder interviews in April 2024.
3. The report considers the SFC's mandate, resources, independence, core outputs and overall impact. It benchmarks the SFC against similar institutions across the OECD, and is based on the international standards set out in the [OECD Principles for Independent Fiscal Institutions](#) (IFIs).
4. The report states that the SFC "continues to stand out as a strong IFI internationally, comparing well to its peers in terms of its independence, analysis, and communications apparatus, as shown by the OECD's 2024 Fiscal Advocacy Index" (as illustrated in Figure 1 of the report). The report also highlights that the SFC has strengthened its relationship with key stakeholders (including the Scottish Parliament and the UK Government), and that its broadened scope of analysis has been positively received.
5. The report notes that the SFC is operating within an evolving fiscal context within which, it "plays a critical role in empowering political and public understanding of the overall fiscal challenges facing the Scottish Government and in informing the debate around budget choices." As such, the OECD has provided a series of recommendations intended to ensure that the SFC effectively and sustainably performs its mandatory duties over the coming years.

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<sup>1</sup> In its foreword to the report, the OECD explains that the 2014 OECD Recommendation on Principles for Independent Fiscal Institutions includes a provision on the need for IFIs to undergo external evaluations. It goes on to say that "the logic behind this is simple – independence requires accountability. Just as IFIs help hold governments accountable, they have a special duty to be accountable as well. The review presented here is part of a series of IFI external evaluations."

## Progress since 2019 review

6. The report concludes that there has been “substantial progress” since the 2019 Review of the SFC. Table 1 of the report provides a full summary of progress made towards each recommendation made by the 2019 Review.
7. The report further highlights three main observations in relation to progress made by the SFC since the 2019 Review. These are as follows—
  - i. **The SFC has broadened the scope of its analysis:** The 2019 Review recommended that the SFC should develop its long-term fiscal sustainability analysis and expand its work on fiscal risks. The report states that the SFC has made “strong progress in terms of refocussing its analysis”, highlighting publication of the SFC’s first report on the long-term fiscal sustainability of the Scottish Government’s budget in March 2023; its more in-depth analysis of future productivity growth; and its dedicated report on climate change. The report states that this new work has increased the quality of the discourse around public finances in Scotland, citing recent stakeholder research undertaken by the SFC which found “82% of key stakeholders rating themselves as very informed on general issues such as fiscal sustainability and shorter-term risks to the Scottish budget, compared to a rating of 53% for the previous year”.
  - ii. **The SFC has strengthened relationships with key stakeholders:** The report states that the SFC has strengthened its relationships with key information providers, including by introducing a Memorandum of Understanding with HM Treasury, as recommended in the 2019 Review. The OECD also notes that the SFC has improved relations and engagement with other UK Government departments, the Financial Scrutiny Unit in the Scottish Parliament, Scottish Parliament Committees, the Office for National Statistics, and other public sector bodies.
  - iii. **The SFC compares well internationally:** The report notes that the SFC “fares well in the OECD’s 2024 Fiscal Advocacy Index”, which provides a measure of IFIs across the OECD, looking at the institutional arrangements, independence, analytical focus, communications approach, and communications impact of IFIs. Figure 1 of the report provides an overview of the SFC’s strengths relative to other IFIs across the OECD.
8. Further detail regarding the SFC’s progress towards the recommendations made in the 2019 Review is available on pages 9-15 of the report.

## Key issues and recommendations

9. The report of the second OECD review states that the fiscal context in Scotland is becoming more challenging, noting that “If public services in Scotland are to continue to be delivered as they are today, Scottish Government spending over the next 50 years will exceed the estimated funding available by an average of 1.7 per cent each year.” It explains that, within this context, the SFC may need to evolve to help inform budgetary decisions and to protect itself as an institution.

### Empowering political and public understanding

10. The report acknowledges that the SFC has an “important fiscal advocacy role to play”, and explains that, to become a stronger fiscal advocate, the SFC should broaden its spending analysis beyond social security to “enable it to look at specific budget scenarios and consider illustrative examples of various tax and spend decisions that can help restore fiscal sustainability.”
11. The report states that “improved public spending analysis as part of the SFC’s work on long-term fiscal sustainability will help the SFC in understanding and communicating large-scale fiscal challenges, shedding light on the scale of trade-offs necessary to balance the budget.” This, it considers, would render the SFC a more effective institution and fiscal advocate and would align the SFC more closely with other IFIs.
12. The report also recommends that “the SFC should strive to increase its communications impact among political stakeholders and the public.” It states that this would bring greater awareness to major policy challenges and help strengthen political and public understanding of budgetary challenges, which could “build momentum for action that safeguards long-term sustainability in the public finances.”
13. The report further suggests that the impact of the SFC’s work could be enhanced through strengthening levels of fiscal literacy among Members of the Scottish Parliament. It highlights that this could be achieved through the SFC continuing to strengthen its engagement with the Parliament – particularly with subject committees – and through supporting the Scottish Parliament’s Financial Scrutiny Unit’s induction of new members.

### Reputational risks

14. The report notes that under Scotland’s Fiscal Framework, forecast errors by the OBR and SFC can directly affect the size of the Scottish Government’s budget and that, within a challenging fiscal context, “forecast errors have consequences for an already squeezed government budget.”
15. As such, the OECD recommends that strong and clear communications around the SFC’s Forecast Evaluation Report are important in improving transparency and understanding of risks and uncertainties for stakeholders, thereby helping to mitigate risks to the SFC’s reputation associated with forecast errors.

16. The report further suggests that the lack of diversity among the SFC's commissioners<sup>2</sup> represents a potential risk to the SFC's reputation and wider impact. It notes that, though the SFC has little direct influence on who is recruited as Commissioners, the SFC could enhance its reputation and impact by broadening the diversity of its commissioners, including appointing commissioners with skillsets other than economics and from a wider range of backgrounds.
17. The report emphasises the importance of access to timely information in supporting the effective functioning of the SFC. Noting that the Scottish Government has not always provided the information underpinning the SFC's forecasts to agreed timescales, the report recommends that the SFC and the Scottish Government should revisit their Protocol for Engagement to strengthen mutual understanding and reinforce adherence to timescales. The report also recommends that the SFC should utilise public reporting to highlight non-compliance to deadlines, stating that doing so creates "a reputational incentive for timely cooperation."

### Independence of the SFC

18. The report states that the SFC's current funding model, whereby it receives its funding directly from the Scottish Government as part of the annual funding cycle, has not thus far posed any issues to the SFC's independence. However, it notes that "the nature of [the SFC's] work and the possibility of a changed political landscape means that tensions could emerge. Were this to become a more significant risk to the effectiveness of the SFC at some point in the future then alternative arrangements should be considered."
19. The report suggests that risks to the SFC's independence associated with its current funding model could be mitigated by—
  - i. **The SFC receiving its funding directly from the Scottish Parliament, rather than the Scottish Government.** However, the report notes that this would mean that the SFC would no longer receive shared services from the Scottish Government, and its employees would no longer be civil servants, which the report states could impact the SFC's ability to attract analysts.
  - ii. **Ensuring that stronger multi-annual funding commitments are in place.** The report states that this would offer greater protection from political influence and help to provide additional assurance against risks associated with the SFC expanding the scope of its analysis to a broader range of budget areas.

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<sup>2</sup> The Review also notes that the lack of diversity among the SFC's commissioners means that it is not achieving its objectives under the Gender Representation on Public Boards (Scotland) Act 2018 for a 50:50 gender representation.

- iii. **The SFC publishing a medium-term financial plan**, setting out the funding it has requested and the funding it has been allocated. The report states that “Making such information publicly available would raise the potential political costs of allocating insufficient funding for the SFC to fulfil its mandate.”

## Next steps

20. This evidence session will help to inform the Committee’s annual evidence session with the SFC, which will take place on 1 April 2025.

Clerks to the Committee  
March 2025