

Finance and Public Administration Committee
Tuesday 1 April 2025
12th Meeting, 2025 (Session 6)

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.

Background

2. The SFC is directly accountable to the Scottish Parliament and sits within the Committee's remit. The Finance and Public Administration Committee has agreed to undertake annual scrutiny of how the SFC fulfils its functions, to take place after it has laid its annual accounts in Parliament. The Committee's last annual evidence session with the SFC took place on [20 December 2023](#).
3. Some of the issues covered in the Committee's previous annual evidence session with the SFC included—
 - Issues surrounding increasing public understanding of fiscal policy in Scotland;
 - The SFC's data needs;
 - The Public Sector Equality Duty, and the SFC's approach to reporting on the gender pay gap;
 - Relationships with external organisations, including the transparency of information regarding the SFC's methodologies; and
 - Changes to the SFC's budget and its sustainability.
4. The SFC's [Annual Report and Accounts for 2023-24](#) was published in October 2024. 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 at 31 March 2024 and of its net expenditure for the year then ended;
 - have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 FReM¹; and

¹ [Guidance on annual reports and accounts - GOV.UK](#): The government financial reporting manual (FReM) is the technical accounting guide for the preparation of financial statements. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland.

- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.
5. At its meeting on [18 March 2025](#), the Committee took evidence from the Organisation for Economic Co-operation and Development (OECD) in relation to its [second review of the SFC](#), which was published on 10 March 2025, together with a [Highlights document](#) which contains key points from their report. The paper for that meeting is included at Annex A for information.
 6. The OECD report considered the SFC's mandate, resources, independence, core outputs and overall impact. Benchmarking the SFC against similar institutions across the OECD, the report states that the SFC "continues to stand out as a strong IFI² internationally, comparing well to its peers in terms of its independence, analysis, and communications apparatus". 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.

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. The [OECD's first report on the SFC published in 2019](#) recommended that the SFC "may wish to consider undertaking initial work [...] in relation to fiscal risks and long-term fiscal sustainability [which] could be incorporated under the SFC's ability to undertake proactive work relating to "fiscal factors" with a longer-term focus". This recommendation was supported by this Committee and its predecessor. In March 2023, the SFC published its first [report on the long-term fiscal sustainability](#) of the Scottish Government's budget, which projects funding and spending up to 2072-73 and estimates that "the Scottish Government will have an average budget gap of 1.7 per cent over the next 50 years based on current tax and spending plans".
9. Following publication of its first Fiscal Sustainability Report, the SFC published its report on [Fiscal Sustainability Perspectives: Climate Change in 2024](#), which looked at some of the implications for the Scottish public finances of meeting Scotland's statutory emissions target to reach net zero by 2045. The Report recommended that—

"The UK and Scottish Governments should articulate their plans on how to achieve net zero and what level of public spending will be required. Looking at these plans together with how the economy and demographics will change, long-term spending and funding projections, and pressures on other public services such as health is needed to support planning and prioritisation and to

² IFIs are independent fiscal institutions.

assess fiscal sustainability. We recommend that the Scottish Government publish the costs of each policy and programme supported in the Climate Change Plan and Scottish National Adaptation Plan. We recommend that spend on mitigation and adaptation be identifiable in budget documentation and outturn so that spending plans can be linked to delivered spending.”

10. The SFC plans to publish its second report on the long-term fiscal sustainability of the Scottish Government’s budget on 8 April 2025. This report will present updated funding and spending projections and will include a focus on health.
11. 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.
12. The SFC’s Annual Report 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.
13. The SFC’s budget for 2023-24 was £2.485 million, compared to £2.303 million in 2022-23. Its net operating costs were £2.331 million, resulting in an underspend of £0.154 million (compared to operating costs of £2.198 million and an underspend of £0.105 million in 2022-23).
14. The [SFC’s Business Plan for 2024-25](#), which was published in April 2024, presents the SFC’s priorities for the year ahead and sets out how it plans to deliver its strategic objectives. The Plan noted that the SFC expected its funding for 2025-26 to be £2.731 million, rising to £2.751 million in 2026-27. It states that this resource allocation reflects the SFC’s current remit, but that its allocation would need to be adjusted should that remit be altered. The SFC’s Business Plan for 2025-26 is currently being finalised.
15. The OECD’s 2025 report recommended that, to become a stronger fiscal advocate, “the SFC will need to broaden and deepen its spending analysis beyond social security. This will enable the SFC to undertake robust independent analysis of spending pressures across the budget and highlight in politically neutral terms some of the different ways in which they might be alleviated.”
16. The Annual Report notes that staff related costs continue to represent the SFC’s biggest category of expenditure, comprising 81 per cent of operating costs in 2023-24 (compared to 80 per cent in 2022-23). It also explains that shared services (including accommodation and audit costs) accounted for approximately 11 per cent of operating costs in 2023-24 (compared to 10 per cent in 2022-23).
17. The Report further explains that the dominance of the SFC’s staff costs means that reducing the number or seniority of its staff is “the only measure which would deliver significant savings.” Doing this, it states, “would have a direct impact on [the SFC’s] ability to deliver forecasts and analysis of an acceptable quality.”

Priorities and measuring outcomes

18. The SFC's [Corporate Plan 2022-25](#) outlines the SFC'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.

19. The Annual Report states that the SFC will consult on and develop a new Corporate Plan for the period April 2025 to March 2028 and that the new Corporate Plan will be informed by the OECD review of the SFC.

20. The table on page 9 of the Annual Report sets out how each of the SFC's activities contribute to its strategic objectives. Additionally, pages 12-20 of the Report include a detailed performance summary, which reports performance against each of the SFC's strategic objectives, its risk profile, financial performance, equality and diversity, non-financial information, and a summary of future plans.

Engagement and communications

21. Acknowledging that the SFC has an “important fiscal advocacy role to play”, the OECD's 2025 report recommends that “the SFC should strive to increase its communications impact among political stakeholders and the public.”

22. The [SFC's Business Plan for 2024-25](#) presents the SFC's priorities for the year ahead and sets out how it plans to deliver its strategic objectives. The Plan states that it developed a new communications strategy in 2023-24 which was informed by academic evidence and the SFC's own analysis.

23. The Plan also notes that, following the publication of its first Fiscal Sustainability Report in March 2023, the SFC undertook phased engagement over a number of months to communicate the report's messages to key stakeholders. It subsequently undertook a stakeholder survey between February and March 2024 to provide formal feedback and to establish a baseline for an evidence-based approach.

Risks

24. The SFC's risks are identified, monitored and assessed by its Senior Management Team, Audit and Risk Committee and Governance Board. The Annual Report explains that the SFC's risk management framework is reviewed and approved by the Governance Board at least every two years, and that the aims of the SFC's approach to risk management are to ensure that—

- “risk management is part of day to day decision-making and not an industry in its own right
- risk management is effective at increasing the likelihood of achieving our objectives
- risks are recorded and reported in a way that the Audit and Risk Committee can scrutinise how the organisation manages risks
- Commissioners are aware of, and make decisions about, the most serious risks”

25. The Annual Report explains that five key risks have been identified, which are detailed below.

Corporate systems – “The Commission’s corporate systems are not sufficient to deliver its work”

26. The Annual Report explains that this risk “rose to and remained high amber for the second half of the year”. It states that this reflected uncertainty surrounding the new Scottish Government HR and finance system, which was due to go live in October 2024. The Report goes on to note that the SFC expects this risk to have limited impact on its analytical work.

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.”

27. The Annual Report states that this risk remained green and steady throughout the year, and the SFC therefore does not anticipate any emerging risks.

Independence – “The Commission’s political and institutional independence is undermined, or is perceived to be undermined.”

28. The Report states that this risk also remained steady and green throughout the year.

29. The OECD’s 2025 report on the SFC highlighted 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.”

30. In evidence to the Committee on 18 March, the OECD explained that—

“The OECD’s principles for independent fiscal institutions suggests two main protections that can be put in place for resources. First, a separate budget line in the budget for those institutions would mean that it would become increasingly transparent when changes were made. Secondly, binding multiyear funding would mean that a Government would not have the latitude

to change funding annually in response to analyses that were not favourable to that particular Government.”

Staff – “The Commission cannot deliver its functions effectively because we do not have appropriate staff or Commissioners, or because staff or Commissioners cannot work effectively.”

31. The Annual Report notes that the SFC’s staffing risk remained amber throughout the year. It states that results from its staff survey remain positive, but that a risk to the SFC’s longer-term work could be posed by the reduction in its working week from 37 hours to 35 hours.

Partner organisations – “A 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.”

32. The Annual Report states that this risk “first decreased but then rose to and remained amber for the last quarter, reflecting a very challenging Budget process and changes in our Scottish Government liaison team.” It states that the SFC is preparing for a new Scottish Government liaison team and expects other key relationships to remain positive.
33. The table on pages 21-24 of the Report sets out the risks faced, how they have affected the SFC’s achievement of its objectives, how they have been mitigated and how this may affect future plans and performance.

Staffing

34. The Annual Report notes that the number of staff employed by the SFC during the reporting period was 25. It explains that the SFC saw an increase in leavers and joiners compared to 2022-23 due to an increase in temporary posts “to cover family leave and to bring in temporary expertise for website accessibility and the new finance system.”
35. The SFC undertook a staff survey in December 2023. The Annual Report states that the survey response rate was 92%, compared to 96% in 2022. The Report explains that responses to the staff survey “remained overall relatively positive”, but that there were “some notable changes in response, including some decreases in overall staff wellbeing.”
36. Details concerning the SFC’s staffing and remuneration are included in the Remuneration and Staff Report at pages 39-50 of the Annual Report. The SFC’s total staff remuneration for 2023-24 was £1,339,000, compared to £1,267,000 in 2022-23 (a 9.57 per cent increase). Total staff costs for 2023-24 were £2,004,000, compared to £1,903,000 in 2022-23.
37. The SFC’s Business Plan states that hybrid working is expected to continue to be a feature of future working patterns.

Diversity and inclusion

38. The Annual Report explains that the SFC is not yet subject to the Public Sector Equality Duty under the Equality Act 2010, but that “the intention is that it will be”, stating that “The Commission aims to comply with the spirit of the Act and the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 and 2016 until it is legally required to do so.”
39. The Report states that there are three elements to the SFC’s consideration of its approach to diversity and inclusion: “recruitment of staff and Commissioners and committee members, how we operate as an organisation, including retention and progression, and how we deliver our work to the public.”
40. The Annual Report notes that, of the SFC’s 17 appearances at Scottish Parliament Committees in 2023-24, 18 per cent of witnesses were female (compared to 15 appearances in 2022-23, of which 20 per cent of witnesses were female). The Report further notes that, of the staff employed by the SFC as of 31 March 2024, 9 were female and 16 were male. This compares to 10 females and 17 males as of 31 March 2023.
41. The gender balance of board members remains unchanged, with 4 male members and no female members. Noting that the SFC is subject to the Gender Representation on Public Boards (Scotland) Act 2018, the Report states that the SFC’s gender balance as of 31 March 2024 was 0:100, and therefore did not achieve the gender representation objective of 50:50 by December 2022. The Report goes on to explain—
- “Our Commissioners are recruited primarily for their economic and fiscal forecasting expertise, rather than governance, management or lived experience, as with many non-executive positions. That recruitment pool is primarily male ... We are continuing to develop a succession plan to ensure that we do all we can to attract diverse, high calibre candidates in future, and will report on the measures we are taking as required by the Gender Representation on Public Boards (Scotland) Act 2018”
42. The SFC’s Business Plan sets out the following commitments to improve its diversity in 2024-25—
- “continue our work on staff recruitment with the aim of employing more women and people with disabilities; paying particular attention to how we advertise vacancies, provide information to applicants, and design the application and selection processes
 - ensure that staff and Commissioners are aware of equalities issues both in the way that we work together and also in our published outputs and external engagement
 - plan an internal programme of activities to raise awareness of equalities issues
 - start work to recruit our next set of commissioners, with appointments due to be made in October 2025, and reappointments/appointments in June 2026.”

43. The OECD's 2025 report on the SFC suggests that the lack of diversity among the SFC's commissioners 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.

Next steps

44. The Committee will hold its next annual evidence session with the SFC following the publication of its Annual Report and Accounts 2024-25 and will continue to take evidence from the SFC on an ad hoc basis in relation to other relevant aspects of its work.

Clerks to the Committee
March 2025

Paper on OECD report on review of the Scottish Fiscal Commission for 18 March meeting

Background

45. 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.
46. 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 SFC³. 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.
47. 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).
48. 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.
49. 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.

³ 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

50. 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.
51. The report further highlights three main observations in relation to progress made by the SFC since the 2019 Review. These are as follows—
1. **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”.
 2. **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.
 3. **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.

52. 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

53. 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

54. 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.”
55. 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.
56. 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.”
57. 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

58. 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.”
59. 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.
60. The report further suggests that the lack of diversity among the SFC’s commissioners⁴ represents a potential risk to the SFC’s reputation and wider

⁴ 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.

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.

61. 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

62. 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."
63. The report suggests that risks to the SFC's independence associated with its current funding model could be mitigated by—
1. **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.
 2. **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.
 3. **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

64. 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