Scottish Fiscal Commission

Bruce Crawford MSP
Convener
Finance and Constitution Committee
The Scottish Parliament
Edinburgh
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14 August 2017

Dear Convener,

Thank you for the opportunity to respond to the Committee's call for evidence on the Financial Memorandum (FM) accompanying the Social Security (Scotland) Bill. As you know, the Scottish Fiscal Commission (SFC) is now established as an Independent Fiscal Institution (IFI) to support the Scottish Budget Process. Our remit covers the production of independent forecasts for Scottish GDP, devolved taxes and devolved demand-led social security expenditure.

The devolution of demand-led social security benefits represents a significant expansion in the workload of the SFC. The SFC will therefore incur costs in order to produce forecasts of expenditure on the social security benefits being devolved, which in 2017-18 accounted for approximately £2.9 billion of expenditure. In a similar way to forecasting receipts from taxes, the challenges and scale of work involved in forecasting do not directly relate to the level of expenditure. Smaller taxes and social security benefits can still require a substantial amount of work to forecast.

The SFC was consulted by the Scottish Government on the costs of producing forecasts of social security expenditure prior to the publication of the FM. At that time the timetable for the devolution of social security was unknown and the SFC was unable to determine the future costs likely to be incurred.

Since then the Scottish Government have set out the timetable for the devolution of the first three demand-led benefits to the Scottish Parliament. An increased Carer's Allowance will be devolved from summer 2018, the Best Start Grant will replace the Sure Start Maternity Grant by summer 2019 and Funeral Expense Assistance will be delivered by summer 2019.[1] The remaining benefits to be devolved include Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Winter Fuel Payments, Industrial Injuries Disablement Benefit, Severe Disablement Allowance and Cold Weather Payments. Based on the assumption that these benefits are gradually devolved over the next four years, we are now able to provide estimates of the expected costs of producing forecasts of social security expenditure.

[1] https://news.gov.scot/news/social-security-benefits

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These costs will begin from the year before each social security benefit is devolved as there will be set-up costs with analysts developing models to forecast expenditure on each of the social security benefits. There will also be on-going costs associated with producing forecasts. The majority of costs incurred will relate to staff costs. In addition a share of the total non-staff costs incurred by the Commission will result from the requirement to prepare forecasts of social security expenditure; these include office accommodation, office equipment, corporate services (audit, IT and HR etc.), training and other running costs associated with the employment of staff.

The costs provided in the table below estimate the running costs that the SFC is expected to incur in 2017-18 and the subsequent three financial years. Staff costs are based on the average salary costs for 2016-17 and further uplifted by 1% thereafter. The non-staff costs cover the other running costs associated with employment of staff. These are based on the share of the SFC's projected total non-staff costs attributable to social security increasing from 5% in 2017-18 to 15% in 2020-21. All costs are rounded to the nearest £5,000.

£	2017-18	2018-19	2019-20	2020-21	Further Information
Staff costs	50,000	125,000	180,000	235,000	Based on 0.75 FTE Senior Analyst in 2017-18 increasing to 1 FTE Senior Analyst from 2018-19 and a FTE Analyst joining in each financial year from 2018-19 to 2020-21.
Non-salary costs	20,000	30,000	40,000	55,000	Based on a share of Commission projected total non-staff costs increasing from 5% in 2017-18 to 15% in 2020-21. This includes office accommodation, office equipment, training, and other running costs associated with the employment of staff.
Total	70,000	155,000	220,000	290,000	

Note: All costs are rounded to the nearest £5,000

These estimated costs are based on the SFC's existing remit. Following the recent publication of the recommendations made by the Budget Process Review Group the SFC's remit may be expanded into further areas. Any expansion in remit may increase the costs incurred by the SFC.

The SFC has written to the Scottish Government setting out our budget requirements for the next three financial years. These requirements incorporate our anticipated costs for forecasting devolved social security expenditure. In delivering our statutory remit we are drawing on OECD principles and best practice for IFIs. The OECD principles highlight how multi-annual funding commitments enhance the independence of IFIs. For this reason we are seeking a three year budget agreement

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with the Scottish Government with an agreed budget allocation for 2018-19 and indicative allocations for 2019-20 and 2020-21.

The published FM accompanying the Social Security (Scotland) Bill includes forecasts of potential funding transfers and illustrative estimated costs of the Scottish Government's policy proposals to increase Carer's Allowance and introduce the Best Start Grant. The SFC was not involved in the production of these forecasts or policy costings. Our first forecasts of devolved demand-led social security expenditure will be published to accompany the Scottish Government's Draft Budget 2018-19 and will cover the benefits devolved in 2018-19.

Best wishes,

Susan

Susan Rice CBE

cc: Mr Derek Mackay, Cabinet Secretary for Finance and the Constitution