Medium Term Approach to the SFC's Budget Planning
May 2024

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Foreword

This medium term budget planning document for the Scottish Fiscal Commission considers the potential evolution of the Commission's operating budget over the next five to ten years.

Our basic finances are very simple. Over eighty percent of our spending is on staff costs and over ten percent is on shared corporate services such as IT, HR, audit and accommodation. We don't have any long term assets beyond the right to occupy our office which can be terminated with a year's notice.

The Commission receives an annual budget approved by Parliament in the Scottish Budget process. We also receive an indicative budget for the subsequent two financial years, in line with the OECD's Principles for Independent Fiscal Institutions.

In developing this medium term budget planning document, we recognise the links with workforce planning over the next five years, and also with the developing work on public service reform in Scotland.

The Scottish Fiscal Commission is independently reviewed every five years. The OECD review mission took place in April of this year, and we are awaiting the review's recommendations which may have an impact on our strategic objectives and day to day operations. Our next corporate plan will incorporate any such impacts.

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21 May 2024

Our Corporate Plan

1. The starting point for this medium term budget planning document is our Corporate Plan, which sets out our mission, vision and strategic objectives.

Summary of our Corporate Plan[1]

What we do: our mission

We produce independent, robust forecasts and assessments to improve the transparency and scrutiny of the Scottish Budget.

Why we do it: our vision

The Scottish Budget is transparent and well-scrutinised, and Government and Parliament understand the inevitable uncertainties and risks relating to devolved public finances.

What we do: our strategic objectives

- Provide robust, independent, official forecasts of Scotland's economy, devolved tax revenues and social security spending.
- Explain what our forecasts and analysis mean for the Scottish Budget.
- Analyse and explain the medium and longer term risks to the Scottish Budget.
- Be an effective and efficient organisation with skilled, knowledgeable people.

Our values

Everyone can trust our work because we:

- are independent – we are impartial, honest and objective
- work well with others
- are transparent and we promote transparency in Scottish public finances
- explain complex matters clearly and make our work easy to access
- produce quality work which informs public debate.

2. This planning document covers the next five to ten years, whereas our corporate plan covers a period of three years. Nevertheless, we feel that our current vision and strategic objectives are still a useful way to consider our medium-term financial planning. We plan to develop and consult on our next corporate plan before April 2025. This will be informed by

[1] Scottish Fiscal Commission Corporate Plan 2022-25

the results of the OECD's independent review of our organisation and our impact, undertaken in 2024.

Our business model

3. Our business model is to undertake all of the analytical work required in-house, drawing upon the expertise of a wide range of stakeholders. We chose this model to make sure we are independent and to make sure we can control the quality of the analytical work, as this is key to our reputation. This business model means that our costs are primarily staffing, and the associated risk is that staffing-related risks are critical to delivery.

Understanding the demand for our work

4. In developing this financial planning document, we make assumptions about how the strategic landscape in which we work might evolve over the next five to ten years:

    - Fiscal pressures mean new devolved taxes and other new forms of funding are developed
    - Elections at UK and Scottish levels may bring new government priorities, so other taxes or social security payments may be devolved, new social security payments may be developed, or existing ones significantly altered
    - No significant roles are added to or removed from our statutory remit
    - No significant change to the fiscal framework which would impact upon our role
    - The Office of Budget Responsibility continues to provide its current forecasts

5. We are conscious that continued pressure on public finances, increased bite of fiscal sustainability issues and / or future constitutional changes could drive additional demand for our work or an expansion of our remit to new areas covered by independent fiscal institutions in other countries. Given the great uncertainty however, we do not intend to develop plans for scenarios of different future remits.

6. We also make the following assumptions about the how the Commission operates over the next five to ten years (without prejudice to any future corporate plan):

    - In-house staff continue to deliver our analysis and forecasting
    - We increase our impact through events, stakeholder engagement and publications
    - Our analysis of public funding and spending evolves
    - We develop our analysis of fiscal sustainability

- We increase our efforts to improve understanding of fiscal matters among key decision makers in the Scottish Government and in the Scottish Parliament
- We continue to use public sector shared services for our corporate HR and finance functions

Strategic objective: Provide robust, independent, official forecasts of Scotland's economy, devolved tax revenues and social security spending

7. This objective relates to a statutory requirement of our founding legislation: produce the official, independent 5-year forecasts of Scottish GDP, taxes and social security expenditure forecasts twice a year.[2] Over the next five years, we anticipate the demand for our current forecasts will remain constant.

8. We anticipate that there will be some new taxes and social security payments which we would be required to forecast in the next five to ten years. The Aggregates Levy, the Scottish Building Safety Levy and the Carbon Land Tax are already in development.

9. The work required to create new forecasts depends on the complexity of the tax / social security payment, its value, the data available and the information about implementation available. After a new model is created, it requires intensive development following the first few years of outturn data. As models and data sources mature, less resource is needed to maintain them.

10. This gives us some capacity to absorb some new forecast work by reallocating staff from matured models to any new forecasts. Were new taxes or social security payments to be proposed that would require significant resource to construct a new model, and we felt we could not absorb that demand, we would request appropriate funding for that particular forecast in order to be able to fulfil our statutory duty.

Strategic objective: Explain what our forecasts and analysis mean for the Scottish Budget

11. Information and analysis are of little use if no-one can access it, use it, or understand it. We are committed making our forecasts, our reports, and responses to queries accessible and understandable. We have developed unique expertise by producing the economic and fiscal forecasts which means we can produce high quality, independent analysis of important issues that are not generally well understood. Rather than producing just tables of forecasts, we explain what our forecasts mean for the Budget - the “so what?”. This adds transparency to the Scottish Budget and the complex Fiscal Framework.

12. Explaining what our analysis means for the Scottish Budget also includes the statutory requirement that we assess the reasonableness of the Scottish Government’s borrowing

[2] Scottish Fiscal Commission Act 2016

requirement twice a year.[3] In order to do this, we analyse the funding of the Scottish Budget alongside the Scottish Government's spending plans.

13. Over the past few years we have deepened our analysis of how the Scottish Budget is funded, and this work has been well-received. We plan to further develop this work, and also to consider developing analysis on spending plans. Given the fiscal pressures, we anticipate that there may also be funding developments over the next five to ten years. Therefore, we expect the demand for this work, and the resource needed to deliver it, to increase over this time horizon.

14. In recent years we have increased the number of events we present to, our graphical explanations and simplified our main reports. Our stakeholder survey results (which will be published in due course at the same time as the Annual Report and Accounts for the year ended 31 March 2024[4])found that "their clear and accessible outputs (particularly the graphic and pictorial summary communications) were highly praised, along with the ability to communicate complex data in an accessible way". We intend to intensify our work in these areas.

15. Given the wider public value of transparency and of the Scottish Government and Parliament having a strong understanding of fiscal issues, we believe meeting, not constraining, these demands offers best value.

Strategic objective: Increase understanding of the medium and longer term risks to the Scottish Budget

16. The Scottish Budget, and scrutiny of it, needs to consider both the immediate financial year and the potential effect on future years. The major piece of non-statutory work we undertake is our fiscal sustainability work, which considers the likely path of spending, tax revenues and other balance sheet items over the next 30 to 50 years.

17. Our work on longer term fiscal sustainability is the result of a recommendation in our first independent review, subsequently endorsed by the Finance and Constitution Committee in the previous Parliament and the Finance and Public Administration Committee in the current Parliament. The first two reports have had a positive reception from the Scottish Parliament, Scottish Government, UK Government and other stakeholders. In May 2023 the Finance and Public Administration Committee requested that we increase the frequency of the reports, recognising the importance of sufficient resources being provided to us for this work.

18. We anticipate the demand for our fiscal sustainability work will continue to develop in the medium term. This work requires different knowledge and skills to our five-year forecasts, and we are fortunate in being able to draw upon the expertise of a wide range of stakeholders, civil servants and academics in developing our analysis.

[3] Scottish Fiscal Commission Act 2016
[4] Scottish Fiscal Commission Annual Report and Accounts

Strategic objective: Be an effective and efficient organisation with skilled, knowledgeable people

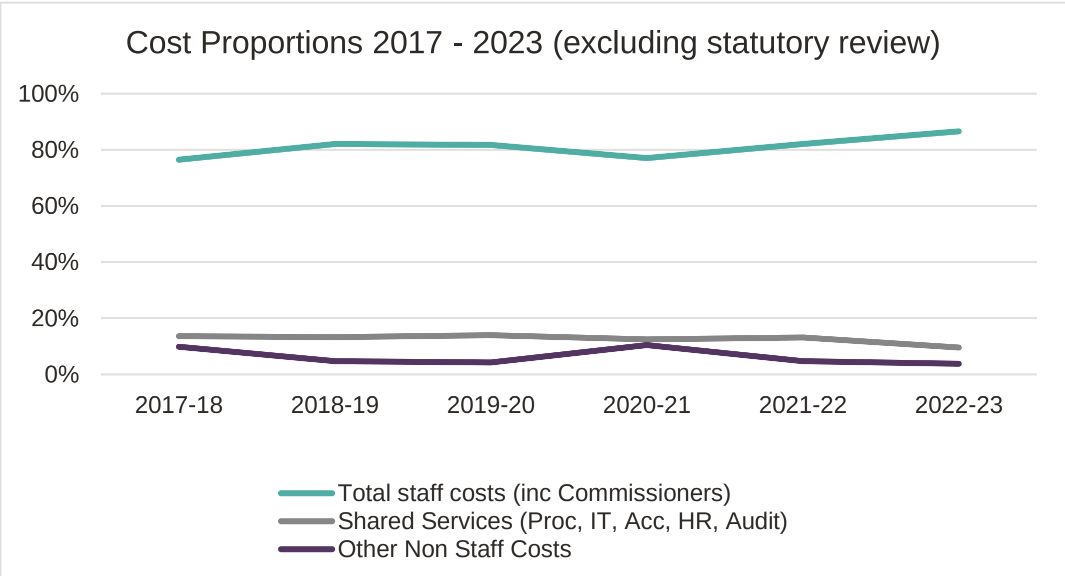
19. We anticipate the demand for training and development and reviewing and refining our models and analytical processes to remain steady.

20. We expect some change in the demand for our corporate services work, but the direction and magnitude are uncertain. The Scottish Government's HR and Finance transformation project could increase efficiency and reduce the resource required to undertake those corporate services, or it could require additional expertise and capacity from the corporate team if more functions are devolved from the SG centre. The new systems go live on 1 October 2024 and we are fully engaged with the change programme.

Understanding our cost base

Workforce planning and risks

21. The largest proportion of our costs is staffing, at over eighty per cent. The next largest category is shared services provided by the Scottish Government, including accommodation, IT, human resources and internal audit, at over ten per cent. These proportions have been relatively stable over the past years.



22. Our planning therefore focuses on the composition of our workforce. Our annual work is cyclical, following the rhythm of the fiscal year. We have a peak load issue: if analytical staffing is too low during the forecast process, then the delivery and/or quality of our forecasts and analysis is threatened. We try to maximise the capacity we have available over the peak forecasting periods by: restricting leave and public holidays during the peaks of our forecast periods, offering different working patterns during the forecast periods, encouraging flexi balances to be reduced before the forecast period and authorising higher

than normal flexi balances during the forecast period and ceasing most non-forecast work. This approach reduces capacity outwith forecast times because staff take their time back then, and thereby minimises the cost.

23. We take a proportionate approach to how we staff our different forecasting models. Mature and simple models require less resource than newer or more complex models. We concentrate our resource on the models that forecast the highest values; in monetary terms a one per cent error in income tax would dwarf a much larger percentage error in landfill tax. Other issues management would consider when making staffing decisions are: what model development or revisions are needed (for example a significant new or revised source of data); how much experience current staff have of running existing models; and is each model resilient to unexpected staff absence?

24. Another aspect of our workforce planning is considering how our current staff complement is likely to change. We are small enough to be able to think about our staff as individuals – what might be the likely next career steps for each person. We also think about external factors: are there Scottish Government or civil service promotion boards which our staff might apply for? Do we have any upcoming periods of maternity, paternity, adoption, or shared parental leave?

25. We have also considered how the forthcoming reduction in the standard working week from 37 hours to 35 hours from 1 October 2024 will affect us. Given the pressures of the Budget process, we anticipate this reduction in working hours will result in higher flexi balances rather than increased productivity during busy periods. In turn, that means less capacity being available during non-forecast periods, when staff typically take time off to reduce their flexi balances. In the longer term, this may pose a risk to model development and therefore future forecast performance, so we have taken account of this in developing our staffing plans.

26. Through this process of considering the demand and supply of our staff, we develop our likely staffing structure for the next four years. We don't make detailed financial plans any further forward than this because the combined uncertainties at that time horizon would mean the planning work would not be of value.

27. Should a significant projected underspend develop during the financial year, we assess whether it would be feasible to make fixed term staff appointments to increase our analytical capacity.

Staffing costs and risks

28. Our next step is to model the likely costs of the future staffing structure we have developed. As part of our initial set up we chose to be part of the Scottish Government Main pay bargaining unit, as it offers a valuable recruitment pool and also it gives our staff career development options that an organisation as small as ours could not. However, it also means that we do not have direct control over pay rates, or terms and conditions. These are set by the Scottish Government reaching agreement with the trades unions and reflect

the Scottish Government's Public Sector Pay Policy which is usually published at the same time as the Budget.

29. As the Government typically announces the pay settlement in-year rather than before the start of the year, the associated risk is that we begin the year with uncertain costs. (The most recent pay settlement was an exception, being a two-year settlement.) To quantify that risk, we developed a staff costs model which allows us to cost different assumptions on pay increases.

30. The other major uncertainty for our staff costs is staff turnover. Staff leaving and posts being vacant for some months and new starts on a different pay step to leavers are factors which can have a significant impact on our costs. Therefore, we cost different scenarios for different levels of staff turnover. The risk that staff turnover poses in turn affects many of our other management decisions and therefore costs: training, development, line manager development, external engagement, summer students.

31. As with the reduction in the working week, high staff turnover or carrying vacancies for a long period also poses longer term risks on our ability to develop models and can put pressures on our teams. We have therefore chosen to over-budget staff costs by up to four per cent of our overall budget, which offers some additional capacity to offset those pressures. This threshold was based on historical underspends and will be kept under review.

Other costs and risks

32. Of our other costs, we also have no control over the price of the shared services delivered by the Government and our external auditors (around 13 per cent of costs). Shared service costs are charged on a cost recovery basis, with IT and HR being based on staff headcount, which allows the Commission to benefit from any economies of scale that the Scottish Government can deliver.

33. The Scottish Government's HR and Finance transformation project has added an extra degree of uncertainty to these costs, as we await details of the future recharging model.

34. Under our agreement with the Scottish Government for occupying Governor's House we are liable for re-charging of the costs of some property-related services. These charges can put some pressures on our budget, especially if they are unanticipated. The Scottish Government has agreed to provide more information on maintenance and replacement issues in future in order to reduce the risk of unanticipated high property-related costs.

35. Like many parts of the public sector, we are using our office accommodation differently post-pandemic. Our hybrid working patterns are continuing to evolve and we are monitoring our accommodation needs and how these may change over time.

36. Our remaining non-staff costs (around 6 per cent) have limited impact on our overall costs, but we make use of shared procurement contracts to minimise these costs. Given this limited impact, we do not model scenarios for these costs.

Potential Savings

37. Because of the dominance of our staffing costs, the only measure which would deliver significant savings would be to reduce the number or seniority of the staff we employ. This would have a direct impact our ability to deliver forecasts and analysis of an acceptable quality, as required by statute.

38. Nevertheless, we have identified measures we expect to take over the next five years below to increase efficiency and reduce cost.

Table 1: Measures to manage pressures

	Next 3 Years (by 2027-28)	Next 5 Years (by 2029-30)
Cost	Reallocate staff from mature forecast models to new models and fiscal sustainability analysis. Restructure corporate team once new HR and finance systems are in place.	Be part of the Delivery Bodies group's work on shared service provision, to take advantage of any more suitable or efficient shared services. Explore pooling arrangements with other organisations to share risk of maternity, paternity, adoption, or long term sickness costs.
Demand	Stakeholder analysis to ensure that our analysis and awareness raising is valuable and well-targeted so that our work has maximum impact.	A better-informed cadre of decision-makers and commentators increases awareness amongst others, so the demand for us to educate and raise awareness reduces.

Funding Shortfalls

39. The Commission receives an annual budget approved by Parliament in the Scottish Budget process. We also receive an indicative budget for the subsequent two financial years, in line with the OECD's Principles for Independent Fiscal Institutions.

40. As funding is determined annually in the Scottish Budget for the year ahead, and because the Scottish Government Main pay settlement is typically not known when we make our annual funding ask, there is a risk that the budget the Commission is given is insufficient to cover the costs of our existing staff complement. In such circumstances we could:

- Not fill, or delay filling, any vacancies that arose during the year, and reallocate analytical staff to minimise the disruption to our work

- Consider whether any non-staff costs could be delayed or avoided

- Ask the Scottish Government to agree a longer Budget timetable that would minimise overtime costs
- Restructure to reduce staffing numbers, but the opportunity for doing so is limited without affecting our peak capacity and thereby ability to deliver the Budget forecasts and analysis
- Reduce the analysis we provide with our forecasts, but this would pose a risk to our reputation.

41. We would not seek alternative or additional sources of funding, as this would be incompatible with the statutory requirement that the Fiscal Commission is independent.

42. However, our indicative two year allocation does give us the opportunity for more advance planning than many other public bodies in Scotland.

43. The tables below set out how a funding shortfall which meant we had insufficient staff might affect broader outcomes and our five strategic risks:

Table 2: Potential impact of funding shortfalls on our five strategic risks

Risk	Effect of funding shortfall
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.	Insufficient staff means forecasting is less accurate, analysis is less detailed and less simplified / tailored to audience Insufficient staff means model development is not undertaken properly, leading to less accurate forecasts in medium term.
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.	Unable to accommodate budget process timing changes Poorer engagement with partners, leading to weaker relationships and less ability to resolve any future crises Ineffective communication of fiscal risks No pursuit of data quality improvements with partners Unable to deliver fiscal sustainability reporting requested by Parliament
Independence: The Commission's political and institutional independence is undermined or is perceived to be undermined. The consensus that a Scottish independent fiscal institution is needed breaks down.	Insufficient staff means we need to ask other organisations for assistance (OBR, SG, HMT) and our independence could be undermined.
Staffing: The Commission cannot deliver its functions effectively because we do not have appropriate staff or Commissioners, or staff or Commissioners cannot work effectively.	Staff illness, especially stress if over-pressured Less investment in training and development affects future performance, retention and recruitment Reputation for over-work affects retention and recruitment
Corporate systems: The Commission's corporate systems are not sufficient to deliver its work.	Insufficient staff results in poor financial management and governance failures.

Table 3: Potential impact of funding shortfalls on outcomes

Next 3 Years (by 2027-28)	Next 5 Years (by 2029-30)	Next 10 Years (by 2033-34)
Government and Parliament are poorly informed when making and scrutinising difficult fiscal decisions.	Poor understanding of fiscal sustainability issues and the risks relating to public finances leads to decision-making which perpetuates, rather than lessens, pressure on fiscal sustainability.	Poor understanding of fiscal sustainability issues means measures have not been taken to prepare for demographic change and a changing climate, so core public service delivery at current levels is no longer affordable.
The Scottish Budget is not transparent and Parliament does not have sufficient information for its scrutiny. Government and Parliament have a poor understanding of the inevitable uncertainties and risks relating to devolved public finances.	Underinvestment in maintaining forecasting models leads to increasing forecast errors and reconciliations, directly increasing the volatility of the Scottish Budget both in-year and between years.	
The Scottish Fiscal Commission's analysis of fiscal sustainability helps inform the longer term decisions on service delivery. If this analysis is compromised, the motivation for and scale of reforms may be compromised.		

Assets, Liabilities and Reserves

44. Our major asset is the right to use Governor's House under a pre-existing agreement with the Scottish Government. This agreement can be terminated with 12 months' notice on either side. This asset is offset by the liability to pay capital depreciation for Governor's House (equivalent to rent or a lease payment).

45. We would only anticipate holding minor assets: office and IT equipment. Currently our assets are a printer and network data switches.

46. As with many other public bodies, we are not permitted hold a reserve between financial years.

Summary

47. This section highlights the key features of our budget planning document using the structure recommended by Audit Scotland in its report on Scotland's public finances of June 2014.[5]

Feature	Description
Period	5-10 years.
Cost profile	We undertake all analytical work in-house, so staffing is our major cost (over 80 per cent). The next largest segment of our costs is shared corporate services – (around 13 per cent, comprising HR, IT, accommodation, procurement, accountancy services, internal audit, external audit). The remaining 6 per cent of costs covers office supplies, IT equipment, training and travel.
Savings options	To deliver significant savings we would need to reduce the number or seniority of the staff we employ. This would have a direct impact our ability to deliver forecasts and analysis of an acceptable quality, as required by statute.
Savings details	We plan to deliver increased value (rather than cost reduction) by: Reallocating staff between teams to absorb forecasting new taxes and increase capacity for fiscal sustainability analysis. Restructuring corporate team following new HR and finance system. Target our engagement to maximise impact, based on stakeholder feedback.
Scenario planning	We model different staffing scenarios over a 4-5 year horizon, to analyse our exposure to risks of future pay settlements, high / low turnover and increased staffing needs, and to inform staffing decisions. We don't make detailed financial plans any further forward than 4-5 years because the combined uncertainties at that time horizon would mean the planning work would not be of value. We don't model different scenarios for shared services, as costs are dictated by Scottish Government, and we don't model scenarios for other non-staff costs as they are such a small proportion of our spending.
Assets, Liabilities and Reserves	Right to use asset for accommodation, no other major assets anticipated, not permitted to hold reserves.
Capital Investment	n/a

[5] Audit Scotland (June 2014) Scotland's public finances – A follow-up audit: Progress in meeting the challenges, Exhibit 3

Demand	Statutory requirement for much of our work. Both the Scottish Parliament and Government agreed the need for our non-statutory work (fiscal sustainability). Anticipate growing demand for analysis and explanations then stable demand in 8-10 years unless major new forecasts are required.
Funding shortfalls	Our funding is determined annually in the Scottish Budget and we are given an indicative budget for the following two years, in line with the OECD's Principles for Independent Fiscal Institutions. This reduces the risk that future funding will be inadequate. There is a risk that the budget the Commission is given is insufficient to cover the costs of our planned staff complement, because the Scottish Government Main pay settlement is typically not known when we make our annual funding ask. In such circumstances we could: delay or not fill vacancies, renegotiate the Budget timetable, restructure or reduce analysis and explanations, but these could have consequences for our reputation. We would not seek other sources of income because legislation requires that we are independent.
Strategic links: Corporate Plan mission and vision[6]	What we do: our mission We produce independent, robust forecasts and assessments to improve the transparency and scrutiny of the Scottish Budget. Why we do it: our vision The Scottish Budget is transparent and well-scrutinised, and Government and Parliament understand the inevitable uncertainties and risks relating to devolved public finances.
Corporate Plan: strategic objectives	Provide robust, independent, official forecasts of Scotland's economy, devolved tax revenues and social security spending. Explain what our forecasts and analysis mean for the Scottish Budget. Analyse and explain the medium and longer term risks to the Scottish Budget. Be an effective and efficient organisation with skilled, knowledgeable people.
Corporate Plan: values	Everyone can trust our work because we: are independent – we are impartial, honest and objective; work well with others; are transparent and we promote transparency in Scottish public finances; explain complex matters clearly and make our work easy to access; and produce quality work which informs public debate.
Risks and timescales:	Various factors could cause increased demand for our work over the next five to ten years: the recommendations of 2024 statutory review, requests from the Scottish Government or the Scottish Parliament's Finance and Public Administration Committee, changes to the fiscal framework, or further devolution.

[6] Scottish Fiscal Commission Corporate Plan 2022-25

Demand	If there is consensus that we take on new areas of work, we would expect that the funding agreed by Parliament would reflect this.
Risks and timescales: Costs	Staffing poses our major financial risk at over 80 per cent of our spending. We control our staffing numbers and grades, but pay and terms and conditions are determined by Scottish Government pay bargaining. This may only be announced in-year, which brings uncertainty to the major part of our costs. Staff turnover is the other major aspect of staffing risk. Our shared services costs are determined by Scottish Government, and Audit Scotland and make up around 13 per cent of our costs. The main risk here is unanticipated maintenance, repairs or replacement costs relating to accommodation. Longer term there is uncertainty about the SG shared service recharging model.