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Foreword

Independent fiscal institutions (IFIs) represent a major innovation in public financial management. They are an essential pillar of many countries' fiscal setup. In some countries, they have expanded beyond national governments and exist at the subnational level.

The Scottish Fiscal Commission (SFC) was established on a statutory basis in April 2017 as Scotland's official forecaster for gross domestic product (GDP), devolved taxes, and devolved social security expenditure, and to assess government borrowing plans. At the request of the SFC, the OECD undertook a first review of the institution in 2019, providing options and recommendations in light of national developments and international experience. Those recommendations built on the strengths of the existing arrangements for the SFC and observed challenges.

This second review is again undertaken at the request of the SFC. The OECD review team conducted stakeholder interviews in April 2024. The review evaluates the SFC's progress on recommendations from the 2019 OECD Review (OECD, 2019^[1]). It also identifies some of the new challenges the SFC faces and looks at ways it can better deliver its work, which has expanded since the 2019 OECD Review. This review takes place in a more challenging fiscal context than the first. The Scottish Government faces several ongoing and emerging budgetary pressures, including an ageing population, meeting its climate transition commitments, and the introduction of new social security measures.

The OECD has been bringing together IFIs through its Working Party of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Working Party) since 2009. The PBO Working Party seeks to identify and share good practices and to set standards for IFIs across Member countries. It developed the 2014 OECD Recommendation on Principles for Independent Fiscal Institutions, which includes a provision on the need for IFIs to undergo external evaluations. 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.

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Abbreviations and acronyms

CFP	Portuguese Public Finance Council (CFP)
CPB	Netherlands Bureau for Economic Policy Analysis
FSU	Financial Scrutiny Unit
GDP	Gross Domestic Product
HM Treasury	Her Majesty's Treasury
IFI	Independent Fiscal Institution
MoU	Memorandum of Understanding
MSP	Member of the Scottish Parliament
ONS	Office for National Statistics
PBO	Parliamentary Budget Office
SG	Scottish Government
SFC	Scottish Fiscal Commission
SP	Scottish Parliament
SPICe	Scottish Parliament Information Centre
LTFS	Long Term Fiscal Sustainability
UK	United Kingdom
UK OBR	United Kingdom Office for Budget Responsibility
US	United States

Executive summary

The Scottish Fiscal Commission (SFC) is an independent body that forecasts Scotland's economy, tax revenues, and social security spending. Established as a statutory body in 2017, the SFC plays a crucial role in the Scottish budget process. This review assesses the SFC's progress since its first review in 2019 (hereafter 'the 2019 OECD Review') (OECD, 2019^[1]). It identifies challenges and future opportunities for the SFC to enhance its work and impact.

The review is based on international standards, notably the OECD Principles for Independent Fiscal Institutions (IFIs). It also benchmarks the SFC against similar institutions across the OECD. It considers the SFC's mandate, resources, independence, core outputs, and its overall impact.

Main findings

In its early years, the SFC prioritised developing a solid reputation for independent, rigorous analysis and establishing strong relationships with key stakeholders. It has since broadened the scope of its analysis to look more widely at the overall Scottish budget and key fiscal challenges, such as long-term fiscal sustainability and the impact of climate change. This new work has been valued and viewed positively by a wide range of stakeholders.

The SFC has also strengthened its relationships with key stakeholders, including the Scottish Parliament and the United Kingdom (UK) Government. 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.

However, the fiscal context in which the SFC is operating is evolving. The Scottish Government faces increasing budgetary pressures due to factors such as an ageing population, increasing healthcare costs, new social security measures and climate commitments. Increased spending in one area often requires tightening in other areas of the Scottish Government's budget. In this evolving context, the SFC 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. To support this, a series of recommendations are proposed.

Summary of recommendations

- The SFC should help support a more informed debate around the trade-offs needed to ensure public finances are on a sustainable path. To do this effectively, 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.
- In supporting a more informed budget debate, the SFC must communicate its analysis effectively – empowering political and public understanding of the key issues. The Chair of the SFC is a

seasoned and effective communicator with key stakeholders including parliament and the media. Building on this, the SFC should seek to further embed a strong communications and engagement culture throughout the institution. This will allow the SFC to increase the reach of its work and ensure that its communications impact is not dependent on any one individual.

- Strengthening levels of fiscal literacy among Members of the Scottish Parliament will also enhance the impact of the SFC's work and help it inform political debate across a broader range of spending areas. Key to this will be the SFC continuing to strengthen its parliamentary engagement – particularly with subject committees.
- Having a voice on spending pressures and choices across a broader range of budget areas may expose the SFC to greater political crossfire. The SFC's independence is well-protected through its enabling legislation, but stronger multi-annual funding commitments would provide additional assurance.
- The SFC has so far done an effective job of managing its high-stakes forecasting environment. These stakes will increase in coming years as forecast errors have consequences for an already squeezed government budget. Transparency and clear communication around these errors and the unique challenges they bring is an opportunity to help quantify the risks and uncertainty for stakeholders and protect the SFC's reputation.
- The SFC is thinking creatively about how it can broaden the diversity of its commissioners to enhance its reputation and impact. Considering a broader range of skillsets, backgrounds, and flexibility on time involvement will support this. In turn, appointing commissioners with skillsets other than economics should also support the continuing expansion of the SFC's work on long-term fiscal sustainability, climate risks, and other emerging challenges.
- Access to timely information underpins the effective functioning of an IFI. In recent years, the Scottish Government has not always provided information underpinning the SFC's forecasts in agreed timescales. Formally increasing the time between Scottish and UK fiscal events would give Scottish Ministers more time to develop their policies and the SFC time to produce high-quality forecasts - these timescales are set out in an agreement between the Scottish Parliament and the Scottish Government - but is unlikely fully address the issue. The SFC and the Scottish Government should also revisit their Protocol for Engagement to strengthen mutual understanding and reinforce adherence to agreed timelines. To ensure accountability, the SFC should also continue to highlight non-compliance with deadlines through publicly reporting, creating a reputational incentive for timely co-operation.

The primary aim of these recommendations is to ensure that the SFC performs its mandatory duties in an effective and sustainable way over the coming years. They also position the institution to have an important role in empowering political and public understanding around budget choices at a time when Scotland's fiscal context will become increasingly challenging. In this way, the SFC can continue to mature from its origins as an institution with a narrow remit in forecasting devolved tax and social security spending to an institution that is a strong fiscal advocate - central to helping ensure Scottish public finances are on a sustainable path, in line with the best institutions of its kind across the OECD.

1 Progress since 2019 OECD Review

There has been substantial progress since the 2019 OECD Review of the SFC (OECD, 2019^[1]). The SFC and other stakeholders have worked to implement many of the recommendations coming out of the 2019 OECD Review. A full summary of progress in relation to each recommendation is provided in Table 1 overleaf.

Three overarching observations are made in relation to progress since the 2019 OECD Review:

1. The SFC has broadened the scope of its analysis.
2. The SFC has strengthened relationships with key stakeholders.
3. The SFC continues to compare well internationally.

Each of these is discussed in more detail below.

1.1. The SFC has broadened the scope of its analysis

A key recommendation in the 2019 OECD Review related to the SFC's work focus. The review suggested that the SFC should dedicate greater resources to the areas of greatest material importance to the Scottish budget. In doing this, the 2019 OECD Review recommended that the SFC should develop its long term fiscal sustainability (LTFS) analysis and expand its work on fiscal risks.

The SFC has made strong progress in terms of refocusing its analysis. In February 2020, it introduced a fiscal overview chapter in its main reports looking at the Scottish Government's funding position. This improved budget transparency, while improving how the SFC assessed the plausibility of government borrowing plans. The fiscal overview chapter served as a platform for the SFC to then publish its first report on the long term fiscal sustainability of the Scottish Government's budget in March 2023.

The SFC followed its long term sustainability report up by producing more in-depth analysis of future productivity growth as a complement to its long-term work. A year later, the SFC published a dedicated report exploring climate change and its impact on the public finances. This is one of the key fiscal risks facing governments across the OECD.

The new work by the SFC has been well received across the board, increasing the quality of the discourse around public finances in Scotland. Stakeholders report that as the SFC has broadened the scope of its analysis, the impact has been to foster greater debate around the budgetary issues central to fiscal sustainability. These findings were echoed in recent stakeholder research undertaken by the SFC, with 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 (JRS the research consortium, 2024^[2]).

Table 1. How recommendations from the 2019 OECD Review of the SFC were implemented

	Recommendation	Key actors	Implementation	Next steps
1	More effort to explain fiscal framework	SFC	Fiscal overview chapter added, written explainers on fiscal framework and reconciliations, risks added. Video explainers, presentations, etc.	Continue as needed. The SFC is a key institution that has the capacity to explain the fiscal framework in clear, non-political terms.
2	Provide technical advice during fiscal framework review	SFC	The SFC had no formal role, but its work was used by both governments. The SFC has become a trusted voice in inter-governmental negotiations.	
3	Further strengthen MoUs with UK Gov departments, detail timelines	SFC	Relations now better. No longer so much of an issue.	
4	Dedicate greater resources to areas important to work of Scottish budget	SFC	SFC has reduced resources allocated to smaller forecasts to allow this.	Expand spending analysis to help inform fiscal choices as public finances become more constrained.
5	Expand work on fiscal risks and develop LTFS analysis	SFC	Published first LTFS report and climate technical paper.	Contextualise LT budget challenges in terms of existing policies.
6	Consider appointing Chair or Commissioners on full or part-time basis	SFC	Considered, but no change. Instead, actively reviewing other options to improve diversity of leadership.	To support increased diversity, consider revisions to skills, time commitment, and number of Commissioners.
7	Develop media-tracking capacity to better understand impact	SFC	Doing. Include media summary in weekly internal email.	Continue and deepen this analysis to further improve impact.
8	Strengthen engagement with parliamentary committees. Including informal events and briefings with parliamentarians.	SFC/SP	SFC doing more parliamentary committee appearances, capacity building and informal briefings in co-ordination with FSU.	Room for improvement to extend knowledge of fiscal matters beyond “usual suspects” in parliament, e.g., through increased engagement with subject committees.
9	Ensure SFC has sufficient time to deliver forecasts	SFC/SG/SP	Not yet.	SG to adhere to timetable. Revisit written agreement to extend time between UK and Scottish fiscal events for next parliamentary term.
10	Continue to invest in economic statistics	SG/ONS	Yes, but UK ONS labour force statistics are an issue.	Continue to raise issue through Statement of Data Needs.
11	Share information on proposed policies at an earlier stage	SG/UK	No longer so much of an issue.	
12	SFC should be given statutory access to data held by UK Government	SG/UK	Not yet.	
13	More regular direct engagement between HM Treasury and SFC, relationship set out in MoU	SFC/UK	MoU set up and regular catchups are in place.	

1.2. The SFC has strengthened relationships with key stakeholders

The SFC has fostered strong relationships with key information providers since the 2019 OECD Review.

One example of this is with the HM Treasury, the UK Government’s economic and finance ministry. The introduction of a Memorandum of Understanding (MoU) with HM Treasury,¹ as recommended in the 2019 OECD Review, together with regular catch ups has helped the SFC overcome information challenges it faced in earlier years. The MoU allows HM Treasury and the SFC to share information that might not otherwise be publicly available. The MoU also provides for increased transparency and sets out expectations for forecasts and reports delivered as part of the fiscal framework.

The SFC has also improved relations with other UK Government departments, with the Financial Scrutiny Unit (FSU) in the Scottish Parliament, and with the Office for National Statistics (ONS). For example, at the Scottish Parliament the SFC has engaged in breakfast seminars and offered training on the budget for

Members and staff, leveraging a new series of short videos.² As well as that, it has engaged with committees that it had previously struggled to get engagement from, including the Health Committee and the Social Justice and Social Security Committee. Its new long-term fiscal sustainability work was also the subject of a debate in the Scottish Parliament.³

In addition, the SFC meets regularly with other public sector bodies in Scotland such as Public Health Scotland, Audit Scotland, and SOLACE in addition to delivering public webinars following its main publications.

It will be important for the SFC to actively maintain these strengthened relationships. For instance, while the new MoU facilitates collaboration between the SFC and HM Treasury, the relationship relies on goodwill to keep lines of communication clear and open. Other relationships will also be necessary to cultivate and nurture on an ongoing basis to ensure the SFC's wider impact.

1.3. The SFC continues to compare well internationally

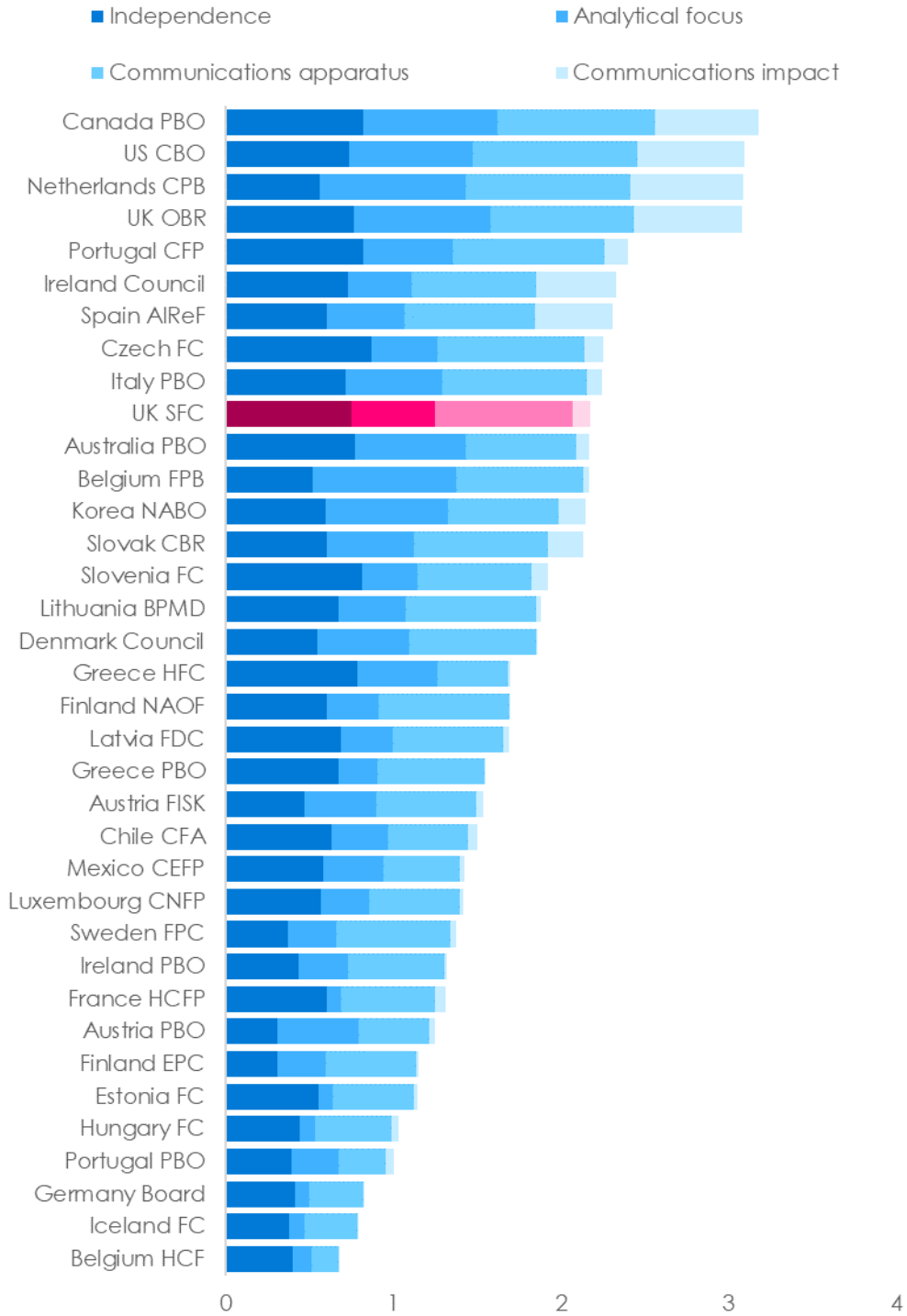
The SFC embodies some of the best elements of IFIs across the OECD. The SFC is highly independent. Its analysis is well focused and – as recognised earlier - has been expanded recently to include work on long term fiscal sustainability and fiscal risks. As well as that, it has a strong communications approach.

Reflecting its institutional strength, the SFC fares well in the OECD's 2024 Fiscal Advocacy Index (OECD, forthcoming^[3]). The index provides a measure of IFIs across the OECD. Conceptually, it focuses on their role as fiscal advocates — champions of fiscal sustainability. It looks at the institutional arrangements enabling IFIs, their independence, their analytical focus, their communications approach, and their communications impact. Most of the information relies on the OECD database on IFIs (2021^[4]). But the index also draws on new indicators of communications impact produced by the OECD. These assess the extent to which IFIs have entered the national debate and the public consciousness.

The Fiscal Advocacy Index highlights the relative strengths of the SFC. It signals its high level of independence. While the SFC has a strong communications *apparatus*, the index points to the potential to further increase its communications *impact*.

The index provides a good starting point to drill down into each of these dimensions.

Figure 1. The SFC has many strengths relative to other IFIs across the OECD



Source: OECD Fiscal Advocacy Index 2024, expanded to include the SFC.

Fiscal Advocacy Index - Independence

The SFC scores well in the area of independence. This is true in terms of the OECD's Principles for Independent Fiscal Institutions (OECD, 2014^[5]). It is also true in international terms, with the SFC faring well based on data from the OECD's 2021 IFIs Database (OECD, 2021^[4]). It is also true in terms of stakeholder perceptions as borne out in the OECD review team's mission.

However, there are some weaknesses and risks confronting the SFC as it strives to protect its independence. For instance, although leadership appointments to the Commission have been based on merit in practice, minimum qualifications for the role are not set out in legislation, as is the case for many IFIs. Nevertheless, appointments must follow a code set by the Commissioner for Ethical Standards in Public Life.

The SFC's Chair is also not a full-time role, unlike in many other IFIs, which can limit the strength and visibility of an institution. In terms of resources, the fact that the budget is not fully protected from executive influence also represents some risk to the institution.⁴ Finally in terms of access to information, the SFC has no legislated enforcement or grievance mechanism if requests for information are not fulfilled.

For the most part, these weaknesses and risks have not led to outright problems for the SFC. In many cases, the SFC has successfully mitigated these risks by fostering strong relationships with key stakeholders. This is an approach it should maintain in future.

Fiscal Advocacy Index - Analytical focus

In addition to refocussing its analysis on key fiscal challenges, the SFC has also continued to refine its forecasting expertise and its costings of Scottish Government proposals. At the same time, it continues to be highly transparent on its methods.

The SFC is also reasonably resourced to deliver its mandate. Its 21 analytical staff give it the resources needed to deliver its mandate in producing official forecasts. Nonetheless, as with any IFI, the SFC's resources may need to be revisited in future should its formal mandate be changed.

The SFC's nearest geographic peer – the UK Office for Budget Responsibility (OBR) - has 31 staff. However, it is difficult to compare resourcing across the two institutions. While the UK OBR has a broader mandate to produce a more comprehensive set of forecasts and a large a volume of policy costings, it does not do all its forecasts in-house like the SFC. Instead, it relies on analytical work from various UK Government departments.

Fiscal Advocacy Index - Communications approach

The SFC has many of the ingredients necessary to disseminate, promote, and track the impact of its work. It maintains an internal communications policy and strategy. It uses press releases and press briefings. It submits its analytical reports to the legislature and gives evidence at parliamentary hearings. Its leadership appears on TV, radio, at conferences, and the SFC is active on social media. In addition, the SFC has developed how it tracks its impact to include monitoring media mentions, web traffic, and surveys of stakeholders. These tools mean that the SFC is able to understand how it can play a greater role in the national debate on fiscal issues. This is supported by the considerable work that the SFC has done to broaden its stakeholder engagements since the 2019 OECD Review.

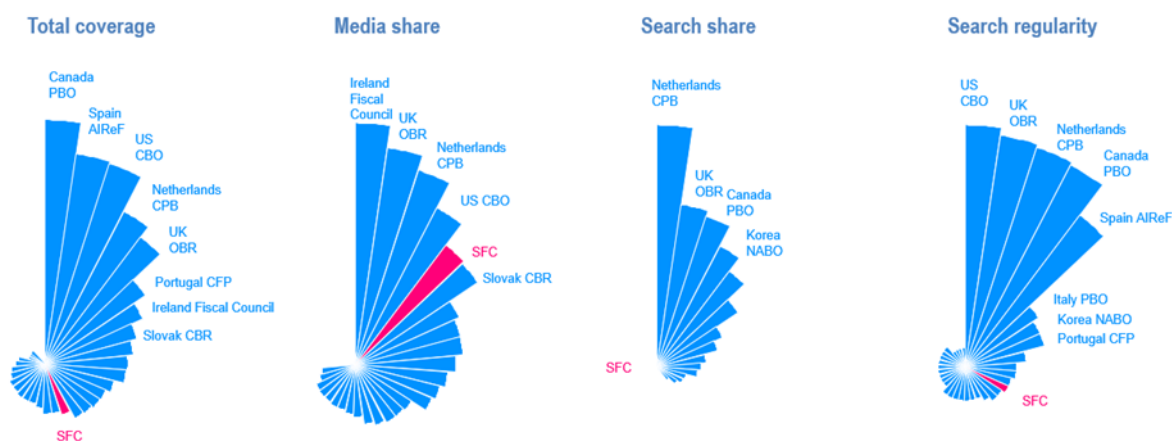
Fiscal Advocacy Index - Communications impact

Public awareness of the Scottish budget, fiscal policy, and fiscal framework is relatively low. This is reflected in limited media coverage of Scottish budgetary issues (see the panel related to total coverage in Figure 2). Playing into this is the dominance of UK-wide news sources and the relatively small number of journalists covering sub-national (i.e., Scottish-specific) fiscal issues.

Scotland's complex fiscal framework can also be difficult to communicate. Even among those identified by the SFC as key stakeholders, just 25% rated themselves as having a great deal of understanding of the Scottish budget (JRS the research consortium, 2024^[2]).

Where there are articles on the Scottish budget, however, the SFC and its work are relatively well cited, as the panel related to media share in Figure 2 shows.

Figure 2. There is low media coverage of Scottish budget issues and the SFC's work



Source: OECD Fiscal Advocacy Index 2024, and own workings.

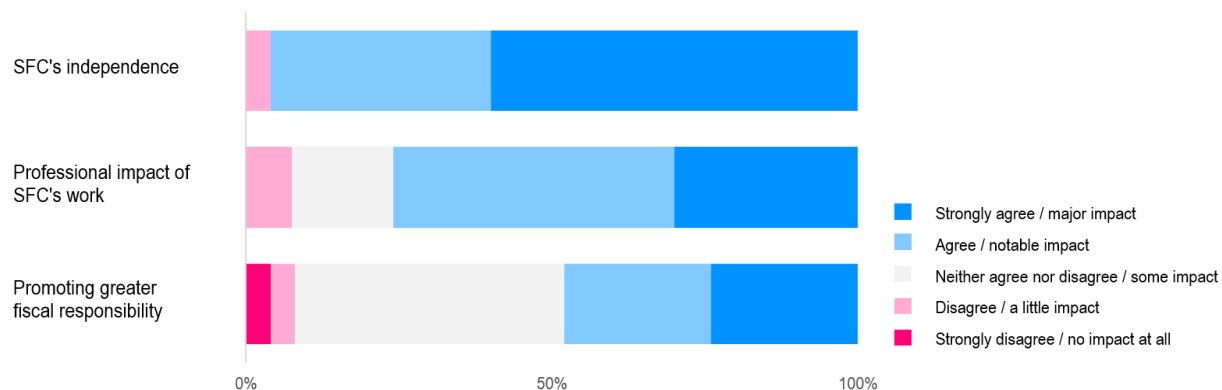
Note: The total coverage and media share measures are updated to include articles that cite the “Scottish Fiscal Commission” on the webpages of the BBC News, the Daily Mail, and the Daily Record assuming that these are three of the most popular websites that people living in Scotland go to for their news.

Given the low UK-wide media interest in Scottish budgetary issues, the SFC's Engagement Strategy focusses its communication efforts on promoting its work to key stakeholders, who as well as being influential decision makers can help amplify their messages to the wider public (Scottish Fiscal Commission, 2023^[6]).

Stakeholders noted that the SFC has become bolder in recent times, cementing its independence and impact (JRS the research consortium, 2024^[2]). The SFC's bolder approach is reflected in several ways. This includes the SFC putting more focus on tackling major fiscal issues. Its leadership also regularly write articles in the Scottish media. And it has reaped the rewards of communicating clearly.

While the SFC has made significant inroads in terms of spreading its work, there is still a sense among stakeholders that the SFC's work can achieve greater impact on the fiscal debate (Figure 3). It may be that as the fiscal context evolves, public finances in Scotland become of increased media interest. This will give the SFC the opportunity to have a broader reach with its work. The SFC should stand ready to take advantage of opportunities that arise. Succeeding in doing this would help further empower political and public understanding of public finances, helping promote wider fiscal responsibility.

Figure 3. Fiscal responsibility in Scotland is enhanced by the work of the SFC



Note: The first question related to whether respondents agreed that “the SFC is independent in the way it carries out its work”. The second question was “what rating would you give the impact of the SFC’s work on a professional basis, for you?”. The final question related to whether respondents agreed that “the work of the Scottish Fiscal Commission helps to promote greater fiscal responsibility in Scotland”.

Source: (JRS the research consortium, 2024^[2]).

2 Looking ahead – key issues

This section considers the SFC's role in light of the changing fiscal context in Scotland. It assesses how the SFC might evolve to best support the sustainability of public finances in this context, and what the SFC might need to do to shield itself from real and potential risks to its reputation and independence in the process.

2.1. The changing fiscal context

Scotland's fiscal context is becoming more challenging. An ageing population, increasing health costs, new social security measures and climate commitments are putting pressure on public finances. 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 (Scottish Fiscal Commission, 2023^[7]). Balancing Scotland's budget will require difficult decisions (Scottish Government, 2024^[8]). Adjustments will likely impact spending due to Scotland's more limited tax-raising powers.

This gives rise to questions around how the SFC may also need to evolve, both to help support informed decisions that help balance the budget as well as to protect itself as an institution in the process. Drawing on the views of stakeholders as well as international experience, the review identifies three key issues in this regard:

1. Empowering political and public understanding
2. Protecting the SFC's reputation
3. Reinforcing the SFC's independence

Each of these is discussed in more detail below.

2.2. Empowering political and public understanding

The SFC's recent work on long-term fiscal sustainability and risk analysis has earned widespread acclaim from stakeholders. Given the escalating fiscal challenges facing the Scottish Government, the SFC has an important fiscal advocacy role to play – helping improve understanding around budget choices that support fiscal sustainability. The SFC's insights will be instrumental in fostering informed political and public discourse on budgetary decisions.

Echoing these findings, the SFC's stakeholder research highlighted a desire for the SFC to expand its role beyond its current responsibilities. Stakeholders suggested that the SFC should begin assessing the potential costs and impacts of policy shifts on public finances (JRS the research consortium, 2024^[2]).

The evolution of the SFC from fiscal forecaster to fiscal advocate is particularly important in the Scottish context, given stakeholders view that there is a lack of political and public awareness regarding the difficult

fiscal choices facing Scotland in the coming years. Part of the challenge is that the fiscal debate has been disproportionately focused on the complex fiscal framework as opposed to the state of public finances:

“So much of the time has been devoted trying to scrutinise the mechanics of Scotland’s new budget framework, that debates are missing the bigger picture ...the structural economic, demographic, social and environmental issues that will stretch the sustainability of the Scottish Budget in the long-term.” (McIntyre, Mitchell and Roy, 2022^[9])

A further challenge is the limited number of independent commentators, think tanks, and journalists covering Scotland’s public finances in detail. This makes for fewer avenues to support political debate on these issues.

There are however, institutions that can work alongside the SFC in achieving a more informed public discourse, such as Audit Scotland, the Financial Scrutiny Unit at the Scottish Parliament Information Centre (SPICe), the Fraser of Allander Institute and the Institute for Fiscal Studies.

In evolving to become a stronger fiscal advocate, the SFC will need to focus its efforts on three key actions. These are: strengthening its spending analysis, increasing its communications impact, and raising fiscal literacy to support the political debate. These actions will help the SFC fulfill this more prominent role empowering the political and public debate around fiscal choices.

Strengthening spending analysis

Improved public spending analysis as part of the SFCs 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.

Empowering political and public understanding of the fiscal context and the sorts of choices that will need to be made in coming years will require the SFC to broaden and deepen its public spending analysis beyond social security. This will enable it to look at specific budget scenarios and consider illustrative examples of various tax and spend decisions that can help restore fiscal sustainability. It will enhance the SFC’s capacity for robust independent analysis and enrich political and public discourse on key fiscal choices.

In highlighting these trade-offs, the SFC has to work around the constraints it faces from considering government policies in the context of alternative policy options. The SFC’s founding legislation explicitly states that it cannot “consider what the effect of alternative policies would be” when analysing Scottish Government policy (legislation.gov.uk, 2016^[10]). The constraint is also mirrored in the Protocol for Engagement between the SFC and the Scottish Government:

*“In publishing its forecasts, assessments and reports, the Commission must have regard to relevant Scottish Government policy and **will not consider what the effect of alternative policies would be**. The Commission may however consider the effect of alternative forecasting assumptions or methodologies on tax revenue, social security spending or GDP forecasts.” (Scottish Fiscal Commission, 2023^[11])*

At the same time, the founding legislation gives the SFC the power to comment on any “fiscal factors” it sees appropriate. Essentially, this means it can comment on anything which might determine the amount of resources likely to be available to Scottish Ministers.⁵ In being able to comment on fiscal factors it sees appropriate, the SFC can speak about alternative policies in broad terms, illustrating trade-offs. The SFC might also consider doing more sensitivity analyses and interactives, which can help policymakers understand their choices without analysing any specific alternative policy.

Stakeholders did not yield any reservations or concerns that the SFC would be rebuked for considering alternative policies in broad terms. In fact, most stakeholders welcomed the idea. In doing so, the SFC should always be politically neutral, applying its analysis to all parties, including both present and future governments, and not expressing any preference for one policy over another. Insofar as the SFC maintains its independence and impartiality, this form of analysis would improve the policy debate in Scotland.

In the longer-term, improved analysis of spending will deepen the SFC’s understanding of budget issues and commentary across a range of policy areas, rendering it a more effective institution and stronger fiscal advocate. This will also align the SFC more closely with peer IFIs across the OECD and put it in a better position to undertake other new tasks in the future should they be demanded, such as independent costings of policies proposed in election manifestos (otherwise referred to as election costings).

Increasing communications impact

In empowering political and public understanding of major fiscal choices, the SFC must communicate its analysis effectively to stakeholders and citizens with a broad range of fiscal literacy. The OECD’s Fiscal Advocacy Index shows that the SFC has many of the elements needed to effectively communicate its work. In addition, stakeholders perceive the Chair of the SFC as a powerful communicator and report that the organisation is both approachable and accessible (JRS the research consortium, 2024^[2]).

Nevertheless, public finances remain a difficult topic to communicate and IFIs across the OECD must continually strive to make improvements in this area. It can be particularly difficult to draw attention to long-term fiscal challenges.

An overarching goal of having clearer communications on fiscal policy and budgetary trade-offs is to shed light on major policy challenges in a way that is more relatable. By communicating these challenges in ways that are more tangible and more salient to peoples’ lives, this will help strengthen both political and public understanding of budgetary challenges. In turn, this can build momentum for action that safeguards long-term sustainability in the public finances.

In pursuit of this goal, the SFC should strive to increase its communications impact among political stakeholders and the public. The SFC has a robust Engagement Strategy to help it achieve this. It could also look to best practices among peer institutions which have succeeded in embedding a strong and impactful communications culture. This involves putting more emphasis on clear communications from the time of staff recruitment, through their induction, to various stages through the report production process. It also involves being creative around how analysis is presented, including using interactive tools and multi-media content.

Embedding this approach at the SFC would enhance the SFC’s communications, institutionalise good practices, and insulate it from the risks of losing hard-won gains from what is currently a highly visible and engaging leadership. An excellent example of this is provided by the CPB in the Netherlands, which has sought to ensure all its analytical staff are thinking about how to best communicate their work (Box 1).

Box 1. How the CPB embeds a communications culture

The Netherlands CPB has reformed its communications in recent years, with a view to embedding a broader communications culture across the organisation as a whole. This effort has paid off. The CPB has the strongest communications impact as measured in the OECD's Fiscal Advocacy Index. It was cited in one-in-five articles on fiscal topics by the top three Dutch news sites in 2023. It is the most Googled of all IFIs within national contexts, and hardly a week goes by where it does not feature in people's search activity in significant volumes.

It takes a holistic approach

The CPB takes a holistic approach to its communications. It instils in its staff an understanding of how communications are central to the success of its work. This happens from day one rather than just having communications experts liaise with analytical staff at the end of projects.

The CPB's approach starts at the recruitment stage. A core competency expected of new staff and sought in the recruitment process is highly accessible communications. On starting, new analysts then receive communications training one day per week over eight to ten weeks. In this time, the communications team covers what outputs have produced more impact and positive outcomes in the past. Staff look at how to structure research to communicate it effectively. They also go through basics like formulating clear sentences and ways to visualise material more effectively. Part of its aim is to have material with easy-to-find takeaways, clear visuals, and a strong narrative.

It proactively anticipates key themes

Another way in which the CPB embeds its communications across the organisation is by being more proactive. It looks ahead and tries to anticipate key emerging themes or areas of focus. For its reports, the CPB has moved away from waiting for researchers to develop outputs and respond to events as they arise. Instead, its communications team get involved in report production at the early and middle stages to help with messaging. As part of this shift in mindset, the CPB assesses the sensitivities and potential timing considerations that might require it to calibrate its approach.

It is remarkably open

Another aspect of the CPB's embedded communications culture is that it is remarkably open. All its staff are free to talk to journalists off-the-record on background. Staff contact details are readily available. It sees this open approach as essential to fostering and maintaining healthy relationships with the media. The approach also has the added benefit of giving a premium to staff who value seeing their work have more impact.

How to learn from and apply this

Few IFIs have the luxury of dedicating six in-house staff to communications as the CPB does. But they can learn from the broader practices applied by the CPB and try to instil some of the same principles. For instance, little prevents an IFI from advocating clear communications throughout their organisations, being open, and tracking and learning from what worked in past publications. These are all things that any IFI regardless of size can strive to build into their ethos.

Raising fiscal literacy

In strengthening the political debate around fiscal policy choices it is also useful to consider how fiscal literacy of key stakeholders can be improved. For example, Members of the Scottish Parliament serving on subject committees will often have a good understanding of relevant policy issues, but are not regularly immersed in budget scrutiny. This can hinder the depth of their engagement on this important topic, and hold back political debate in areas that are important for fiscal sustainability.

While the Financial Scrutiny Unit at the Scottish Parliament plays a useful role in helping raise fiscal literacy among elected officials, the SFC could further reinforce this. For example, building on its existing engagement with the Scottish Parliament, the SFC could support the Financial Scrutiny Unit with the induction of new members following Scottish Parliament elections, providing insights into its role and an overview of key issues relating to fiscal sustainability. It can also further increase its work with subject committees, presenting its work in an easy-to-understand manner and engaging with elected officials on these committees more regularly.

2.3. Protecting the SFC's reputation

There are several factors which could potentially challenge the SFC's reputation in coming years, undermining its ability to act as an effective fiscal advocate. This includes the high-stakes forecasting environment, continued lack of diversity among its Commissioners or inability to deliver good quality work, e.g., due to lack of information underpinning the SFCs forecasts and compressed timescales for undertaking its work.

Managing the increased risks associated with a high-stakes forecasting environment

As noted in the 2019 OECD Review, the SFC operates in a relatively high-stakes environment compared to other IFIs, indeed other institutions in general, when it comes to making forecast errors. The way in which Scotland's fiscal framework is set up means that forecast errors by both the OBR and the SFC can have direct consequences for the size of the Scottish Government's budget (for more details, see Box 2).

The SFC has done an effective job to date of managing the reputational risks of this forecasting environment. However, these stakes will increase further as fiscal space narrows, where forecast errors have consequences for an already squeezed government budget. As such, the SFC is right to highlight this as an ongoing priority in its Engagement Strategy.

A key tool for understanding and explaining the source and impact of forecast errors is the SFC's Forecast Evaluation Report. Strong and clear communications around this report have an important role in improving transparency and understanding around the risks and uncertainty for stakeholders, helping to protect the SFC's reputation.

Box 2. Why the Scottish Government's fiscal framework makes for a “high-stakes” forecasting environment

The design of Scotland's fiscal framework is set out in a fiscal framework agreement between the Scottish and UK Governments. This agreement has been recently renewed. The way the fiscal framework operates raises the stakes of the SFC's forecasts being wrong. Mistakes or large differences between the SFC's Scottish forecasts and the OBR's UK-wide forecasts can have real-world consequences for how the Scottish Government's budgetary resources are allocated.

The issue of reconciliations

In cases where there is a difference between forecasts and actual outturns, the Scottish Government's fiscal framework requires the government to adjust for these differences via what are called “reconciliations”. In the case of negative reconciliations, the Scottish Government must subsequently find a way to adjust parts of its budget to fund these differences. In the case of positive reconciliations, there is a one-off boost to funding which is not repeated in future years and cannot be smoothed over time.

There are limited buffers to address any forecast errors

There are two tools that the Scottish Government can use to mitigate how negative reconciliations might require it to sharply adjust parts of its budgetary allocations. However, both are very limited.

First, the fiscal framework allows for “resource borrowing”. This lets the Scottish Government cover forecast errors up to specific limits. When taxes are less than expected or when social security spending is more than expected, it can borrow money and cover the gap. However, there are strict limits on this. In a given year, it can borrow no more than £600 million, rising in line with inflation, equivalent to just 0.3% of Scottish GDP.

Second is the Scotland Reserve. This is effectively a savings fund that allows the Scottish Government to save money in some years and draw it down in others. Its use is helpful as part of wider budget management - not just for reconciliations. However, it can be used to carry forward a positive reconciliation impact to help smooth the impact over multiple years. It is also one example of a potential buffer that could cover an annual budget shortfall. However, it too has strict limits. It is capped at £700 million (0.3% of GDP) in 2023-24 prices, rising in line with inflation.

Together these two tools are quite limited. At most, they cover a minor shortfall, no more than 0.6% of GDP in one year. For context, the average OECD total non-interest deficit outside of Covid and the financial crisis period since 2000 was 1.4% of GDP, with OECD countries often able to borrow much more than this in a given year while still operating within fiscal rules. While the Scottish Government devolved powers are limited, the constraints it faces are nonetheless tight. With the Scottish Government average annual shortfalls expected to grow over the next 50 years, this presents challenges. Indeed, the SFC estimates that negative forecast errors beyond the limits covered by existing buffers will likely occur every few years, becoming more common as time passes (SFC, 2023^[12]).

Managing the reputational risks associated with this will be a big challenge

In sum, there is extremely limited scope for the SFC and OBR to get their forecasts wrong whilst avoiding a need for sharp adjustments to the Scottish budget. Moreover, this limited scope for error without sharp adjustments is likely to shrink over time. Unless there are changes to Scotland's fiscal framework, an agreement between the UK and Scottish Governments, the SFC will be vulnerable to reputational risks.

Continuing to seek greater diversity among SFC Commissioners

Several stakeholders highlighted the lack of diversity among Commissioners, notably in terms of gender and skillsets. While the lack of diversity is a common problem across the economics profession, it remains a potential risk to the SFC's reputation and its wider impact. The lack of diversity also means that the SFC is not achieving its objectives under the Gender Representation on Public Boards (Scotland) Act 2018 for a 50:50 gender representation.

This is something that the SFC recognises as an issue. Because the public appointment process is not managed by the SFC, the institution itself has little direct influence on who is recruited as Commissioners. The SFC, for example, cannot insist that diversity objectives such as gender representation on public boards are more rigidly applied. This is something that some other OECD IFIs can do.

Instead, the SFC's leadership has been active in trying to find alternative ways to increase the diversity of Commissioners in recruitment rounds. For example, its leadership has worked actively to attract diverse candidates ahead of two new Commissioners being recruited in 2025. For some of its future appointments, it is also considering focusing on skills other than an expertise in economics, where the SFC has built up considerable capacity already, to consider more specific areas, such as social security, public spending and taxes.

The expansion in focus to consider specialists with other areas of expertise is a potential route to help widen the pool of candidates available. For example, some OECD IFIs have members with backgrounds in media as well as grounding in economics. This has proven helpful in terms of understanding the media landscape they operate in and in developing communications networks. Others have had members with backgrounds in finance or governance. And there is scope to appoint those with backgrounds in areas such as health, climate science, and demographics, which would help reinforce the SFC's focus on major long-term fiscal challenges. There is also more scope for flexibility on the time commitment and numbers of Commissioners required. Changes in these respects might entail considering reallocating workload between staff and Commissioners. For example, increasing the time commitment of Commissioners may give the opportunity for more in-depth engagement in discrete pieces of work related to their subject expertise.

Adhering to pre-agreed timelines for the provision of information

Access to timely information underpins the effective functioning of an IFI and the SFC is no different. In recent years, the Scottish Government has not always adhered to the pre-agreed timetable for providing information underpinning the SFC forecasts. A key challenge relates to the short timeframe between UK fiscal events and subsequent Scottish fiscal events. The written agreement between the Scottish Parliament and the Scottish Government specifies the Scottish Budget should be published three weeks after the UK fiscal event. A gap of three weeks has only taken place once, in December 2017. Since then, the gap between UK and Scottish fiscal events has been longer than three weeks. If the minimum gap of three weeks was imposed, it is likely to lead to more situations where deadlines are missed. Late information limits the SFC's ability to properly cost new proposals and creates potential reputational risks should the SFC not be able to meet its mandate.

The Scottish Government and the SFC should be proactive in addressing this risk. A key option for alleviating this is through the Scottish Parliament and Government revisiting the gap between UK and Scottish fiscal events to ensure the minimum gap provides sufficient time for Ministers to reach decisions and the SFC to produce high-quality forecasts.⁶ However, this action alone is unlikely to resolve the issue. The SFC and the Scottish Government should also revisit their Protocol for Engagement to strengthen mutual understanding and reinforce adherence to agreed timelines. The Protocol sets out key timelines for when relevant information on policy changes is to be made available to the SFC.

To ensure accountability, the SFC can continue to highlight any non-compliance with deadlines through public reporting, creating a reputational incentive for timely co-operation. This could also be incorporated into the Protocol as part of any future review.

2.4. Reinforcing the SFC's independence

Having a voice on broader fiscal issues will expose the SFC to greater political crossfire. The SFC's independence is well-protected through its enabling legislation. However, there are questions over whether its funding arrangements are adequately protected from any potential risks of political interference arising in future.

Safeguarding the SFC's funding from political influence

The SFC currently receives its funding directly from the Scottish Government, albeit that its budget line appears separately from Scottish Government portfolios in the annual Budget Act. This is similar to how a number of other independent bodies in Scotland operate, such as the Scottish Courts and Tribunals Service. In practice, the approach sees the SFC go through an annual funding cycle where Scottish Ministers ultimately decide on its budget allocation. Funding is decided on for one-year ahead, with indicative allocations given for two subsequent years.

This funding model has not so far posed any issues to the SFC's independence. However, the nature of its 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.

One option to increase the independence of the SFC would be to have it receive its funding directly from the Scottish Parliament, instead of the Scottish Government. However, this would have knock-on implications for the SFC that could negatively impact the institution. For example, it would no longer receive shared services from the Government and employees would no longer be civil servants, potentially impacting the SFC's ability to attract analysts.

A less disruptive option to mitigate these risks would be to ensure that stronger multi-annual funding commitments are in place. Similar to recent changes implemented for the UK OBR, providing the SFC with greater certainty over its multi-year funding commitment would offer greater protection from political influence.

A potential risk with this approach is that it would increase the financial risks the SFC bears in the event of unexpected cost increases or expansions of its work. However, such risks could be mitigated by allowing budgets to be reviewed at the SFC's request or following changes to the scope of its work, as is the case with the UK OBR.⁷

Another option would be for the SFC to publish a medium-term funding plan, setting out the funding it has requested and the funding it has been allocated. The idea would be to identify the resources required to fulfil its work over the medium term and to then make public this and any differences with actual allocations. Making such information publicly available would raise the potential political costs of allocating insufficient funding for the SFC to fulfil its mandate. This is an option that has been explored in the Portuguese Public Finance Council (OECD, 2019^[13]).

3 Conclusion

This second OECD review of the SFC reflects positively on the institution's progress since 2019 while recognising the growing challenges ahead. The SFC has built a reputation for rigorous analysis and transparency. Its work, grounded in international best practices, is crucial for guiding Scotland's economic and fiscal policy debate.

Since the 2019 OECD Review, the SFC has successfully broadened its scope of analysis. Notably, it has expanded its focus to include long-term fiscal sustainability and key fiscal risks. These developments align with trends across peer institutions and underscore the SFC's potential to go beyond its role as official economic and fiscal forecaster and help raise awareness around fiscal challenges. The SFC has also strengthened its relationships with key stakeholders, including the Scottish Parliament and the UK Government, which supports the delivery of its mandate.

However, the fiscal context is becoming increasingly complex. The Scottish Government faces significant budgetary pressures due to an ageing population, rising healthcare costs, new social security measures and climate commitments. In this environment, the SFC will play a pivotal role in empowering political and public understanding about difficult fiscal choices that lie ahead.

The review highlights the need for the SFC to continue evolving to meet these challenges. It recommends deepening spending analysis beyond social security to offer more comprehensive insights into public spending trade-offs. This will allow the SFC to inform political debates with a broader perspective on budgetary choices.

Effective communication remains critical. The SFC must continue to deepen its engagement with key political stakeholders but also to take every opportunity to improve fiscal literacy and political and public understanding of the Scottish Government's fiscal framework. By embedding a strong communications culture across the organisation, the SFC can extend its influence and ensure that its work resonates with as broad an audience as possible.

The review also underscores the importance of protecting the SFC's independence. While the institution's independence is safeguarded by its legislative framework, stronger multi-annual funding arrangements would offer greater stability and reinforce the SFC's independence. Additionally, the review highlights the need to diversify the SFC's leadership. Broadening the range of expertise among its Commissioners, including backgrounds other than economics, would enhance the institution's ability to address Scotland's complex fiscal issues. This diversity is particularly important as the SFC continues to expand its work on long-term fiscal sustainability, climate risks, and other emerging challenges.

In conclusion, the SFC has made significant progress since the 2019 OECD Review. Its enhanced analysis and strengthened stakeholder relationships position it well to navigate Scotland's increasingly challenging fiscal environment. Continued evolution of the SFC will help empower political and public understanding on fiscal matters, protect its independence, and ensure that it continues to provide high-quality analysis in the face of growing complexity. By implementing the OECD's recommendations, the SFC can further solidify its role in the Scottish Government's fiscal framework, championing sustainable public finances for years to come.

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¹ See <https://fiscalcommission.scot/publications/memorandum-of-understanding-with-hm-treasury/>.

² See <https://fiscalcommission.scot/explainers/videos/>.

³ See <https://www.parliament.scot/chamber-and-committees/official-report/search-what-was-said-in-parliament/meeting-of-parliament-29-10-2024?meeting=16058&iob=137125>.

⁴ Each summer, the SFC Chief Executive informs the Scottish Government of the budget the SFC will need for the next three years. It is up to Scottish Ministers then to decide if this budget is acceptable and to provide a clear indication of funding for the upcoming year along with indicative funding for the following two years. The amount for t+1 is included in the Budget legislation as a separate line.

⁵ See Section 2 of the Scottish Fiscal Commission Act 2016. Subsection (4) notes that “the Commission may from time to time prepare reports (a) containing its forecasts, assumptions or projections in relation to such fiscal factors as it considers appropriate, or (b) setting out its assessment of the reasonableness of the Scottish Ministers’ forecasts, assumptions or projections in relation to such fiscal factors as it considers appropriate”. Subsection (5) then notes that “for the purposes of subsection (4), a “fiscal factor” is anything which the Scottish Ministers use to ascertain the amount of resources likely to be available for the purposes of sections 1 to 3 of the Public Finance and Accountability (Scotland) Act 2000.

⁶ The agreement between the Scottish Government and the Scottish Parliament states that the Scottish Budget is published “no more than three working weeks after the publication of the UK Autumn Budget”.

⁷ See paragraph 8.8 of the UK OBR’s framework document:
https://obr.uk/docs/dlm_uploads/OBR_HMT_framework_document_2019_update_web.pdf.

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