



Budget Process Review Group

Final Report

30 June 2017

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EXECUTIVE SUMMARY

The Group recommends that the Scottish Parliament's budget process should have the following four core objectives—

- To have a greater influence on the formulation of the Scottish Government's budget proposals;
- To improve transparency and raise public understanding and awareness of the budget;
- To respond effectively to new fiscal and wider policy challenges; and
- To lead to better outputs and outcomes as measured against benchmarks and stated objectives.

To achieve these objectives the Group recommends the need for significant changes to the existing budget process which are driven by two key factors.

Firstly, the new powers arising from the Scotland Act 2012 and Scotland Act 2016. From 2017/18 approximately 40% of the money which the Scottish Government spends will come from taxation raised in Scotland with further taxes due to be devolved. Around 15% of social security spending, an estimated £2.8 billion is also being devolved. As the new powers are introduced, Scotland's budget will become increasingly complex and subject to greater uncertainty and volatility.

Secondly, the Group identified some weaknesses within the existing process including that the current process does not take sufficient account of the interaction of the UK budget timetable with the Scottish budget timetable and that parliamentary influence on the formulation of the budget has been limited.

The Group, therefore, recommends the following framework for the revised budget process –

- **Full Year Approach:** a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals;
- **Continuous cycle:** scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends;
- **Output / outcome focused:** scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes;
- **Fiscal Responsibility:** scrutiny should have a long term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services; and
- **Interdependent:** scrutiny should focus more on the interdependent nature of many of the policies which the budget is seeking to deliver.

The Group's view is that this will require cultural change as well as changes to process and procedures.

Spending Reviews and Multi-Year Budgets

The absence of multi-year budgets for devolved public services in recent years has been a key concern highlighted in evidence to the Group. A wide range of stakeholders suggested that single-year budgets make it more difficult for devolved public services to adopt medium-term priorities and develop plans to address future challenges.

There hasn't been a Scottish spending review since 2011. Spending reviews are intended to provide a means via which overall expenditure can be prioritised and inform proposals for multi-year budgets. The Group recommends that there is a presumption that the Scottish Government will carry out a spending review, linked to the equivalent UK spending review. The Group also recommends that the Scottish Government publishes a framework document setting out the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for the review.

Fiscal Framework Outturn Report

The Fiscal Framework agreement between the UK Government and the Scottish Government sets out a series of rules and arrangements that are required in order to operationalise the new tax and social security powers. This is a complex process, for example, the size of the Scottish budget is now initially partly dependent on a number of forecasts which are subsequently reconciled with actual outturn figures.

The Group recommends the introduction of a Fiscal Framework Outturn Report. This should be published by the Scottish Government annually in September. The report is primarily intended to support scrutiny of the operation of the Fiscal Framework including the reconciliation process, the Scotland Reserve and borrowing powers.

Medium-Term Financial Strategy

The Group also recommends the introduction of a Medium-Term Financial Strategy (MTFS). This would involve the Scottish Government setting out its expectations and broad financial plans/projections for at least the next five years following the UK Government's Spring Budget Statement.

The MTFS is intended to capture an overview of the financial implications of existing policy, so these can be understood in formulating detailed budget proposals later in the budget cycle. It should be published annually following the UK Spring Statement on a five year ahead rolling basis. This would enable a medium-term perspective on the public finances to be maintained throughout each parliamentary session.

Outcomes-Based Scrutiny

Effective budget decision making on tax-raising and spending means understanding what public spending is intended to achieve, and what is actually being achieved. An outcomes-based scrutiny approach provides a means for evaluating the economic and social outcomes being achieved by public spending.

The Group recommends that the Scottish Government clearly links its detailed annual spending proposals and multi-year spending reviews to relevant policies, strategies and plans. The Group also recommends that the Scottish Government and public bodies strengthen their performance planning and reporting to provide a greater focus on the delivery of outcomes.

Proposed Revisions to the Existing Budget Process

A weakness of the current budget process is that parliamentary scrutiny does not begin until after the Scottish Government's firm and detailed spending proposals are published and then tends only to focus on a single year. There is little emphasis on seeking to influence the formulation of the Scottish Government's spending proposals or evaluate the impact of previous budgets.

The Group agrees with the Financial Issues Advisory Group, who developed the current budget process, that the optimum period to influence the budget is when priorities are being set. The Group recommends that committees should write to ministers at least 6 weeks prior to the budget being published setting out their policy priorities. Committees should set out their views on the delivery, impact and funding of existing policy priorities and any proposed changes including any proposed new policy priorities.

The Group recommends that this should be a cumulative process and that committees should build up an evidence base throughout each session of the Parliament through, in particular, the evaluation of the impact of previous budgets and progress in achieving objectives. The Group also makes a number of recommendations which seek to ensure that scrutiny and setting of equalities objectives and public engagement are integral to the budget process. Lastly, the Group also highlights some further issues where it considers that further work is required such as the legislative process for taxation.

MEMBERSHIP

- Scottish Parliament Officials
- Scottish Government Officials

External Members of the Group

- Dame Sue Bruce, Non-Executive Director
- Professor Mike Danson, Professor of Enterprise Policy, Heriot-Watt University
- Caroline Gardner, Auditor General for Scotland
- Elaine Lorimer, Chief Executive, Revenue Scotland
- Professor James Mitchell, Director of Academy of Government, University of Edinburgh
- John Ireland, Chief Executive, Scottish Fiscal Commission¹
- Dr Angela O'Hagan, Gender Budgeting Specialist, Glasgow Caledonian University
- Don Peebles, Head of the Chartered Institute of Public Finance and Accountancy Scotland

¹ John Ireland took over from Sean Neill, the Interim Chief Executive of the Scottish Fiscal Commission, on the Group on 9 May 2017.

INTRODUCTION

1. The Budget Process Review Group (“the Group”) was established by the Finance and Constitution Committee and the Scottish Government to carry out a fundamental review of the Scottish Parliament’s budget process. This report provides a summary of the Group’s findings and recommendations. The Group recognises that given the wide range and complexity of many of the issues that we have considered it is unrealistic to expect all our recommendations will be implemented immediately. We expect these will be phased in and that the budget process will continue to evolve throughout the current parliamentary session.

2. The Group’s remit is –

“To carry out a fundamental review of the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016. To bring forward proposals for a revised budget process which are consistent as far as possible with the principles of the Financial Issues Advisory Group for consideration by the Finance Committee and the Cabinet Secretary for Finance and the Constitution.”

3. The Group met 11 times between September 2016 and June 2017. We commissioned research on best practice in parliamentary budget scrutiny from Professor Joachim Wehner of the London School of Economics.² This helped to inform an Interim Report which the Group published for consultation.³ The Interim Report considered in detail how the budget process has operated since the establishment of the Scottish Parliament and the changes which arise from the devolution of new financial powers and the implementation of the Fiscal Framework. These issues are considered in detail in the Interim Report, therefore, they are not set out again in this report. As a consultation document, the Interim Report also identified five themes on which views were sought. These were:

- How effective is the existing budget process?
- What is the impact of the Fiscal Framework?
- How effective is the current approach to Multi-Year Budgeting?
- How effective is the current approach to Medium-Term Financial Planning?
- How effective is the current approach to outcome-based scrutiny?

4. There were 26 responses received addressing the issues raised in the Interim Report and they can be accessed [here](#). The Group also took oral evidence from a number of external stakeholders and they are listed at annexe A. The Group wishes to thank all those who participated in and contributed to the review.

² http://www.scottish.parliament.uk/S5_Finance/Reports/2017.03.09_Joachim_Wehner.pdf

³ [http://www.scottish.parliament.uk/S5_Finance/Reports/2017.03.10_BPRG_Interim_Report_\(1\).pdf](http://www.scottish.parliament.uk/S5_Finance/Reports/2017.03.10_BPRG_Interim_Report_(1).pdf)

5. We have been tasked with devising a revised budget process within the context of the Financial Issues Advisory Group (FIAG) principles, which addresses the increased level of responsibility arising from the new powers. FIAG stated that it will be important that “any Scottish budgeting system is capable of:
 - providing opportunities for the Parliament to comment on expenditure priorities and to influence the Governments’ preparation of budgets;
 - providing the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process;
 - providing sufficient time for the Parliament to consider and debate proposals fully;
 - providing balance between the requirement for parliamentary scrutiny and the needs of the Executive;
 - providing some degree of certainty so that on-going activities can continue without prolonged uncertainty;
 - providing an efficient mechanism to deliver motions to be debated by the Parliament;
 - providing a meaningful role for subject committees and the Finance Committee;⁴
 - delivering timeous decisions on tax varying powers and the budget (as well as the interim spending approval and budget amendments);
 - engaging all MSPs;
 - facilitating the Executive’s formulation of proposals; and
 - providing for the right of amendment.”
6. The Group has sought to develop a framework which should both accommodate the existing powers and any further devolved powers, including VAT and social security. At the same time there will be technical issues arising from the introduction of these powers and the operation of the Fiscal Framework which may require further changes to the budget process.
7. To achieve these objectives the Group recommends the need for significant changes to the existing budget process. This is partly in response to the impact of substantial new financial powers and the operation of the Fiscal Framework. but it is also in response to some weaknesses within the existing budget process.
8. As discussed above, the Group considers that some of the recommendations proposed in this report will require to be phased in over time in line with the implementation of the Fiscal Framework more generally. Accordingly, the Group considers it essential that a flexible approach is taken to implementation of a new budget process in order that it can evolve over time. In this regard, the Group recognises that the inter-dependencies between the UK budget process and the Scottish budget process will require to be flexible enough to cope with further changes in the UK budget process as these emerge over time.

⁴ Following a motion passed by the Scottish Parliament on 26 September 2016 the Finance Committee was renamed the Finance and Constitution Committee.

9. The review of the Scottish budget process at this time is an opportunity to build on the development to date of the Equality Budget Statement and to embed equality analysis in the budget process. The proposed revisions open new opportunities for integrating improved scrutiny of actions to advance equality and for the formulation of equality outcomes linked to the economic strategy and the National Performance Framework.

Recommendations

- **Recommendation 1:** The Group recommends that the Parliament's revised budget process should have the following four core objectives:
 - To have a greater influence on the formulation of the Budget;
 - To improve transparency and raise public understanding and awareness of the Budget;
 - To respond effectively to new fiscal and wider policy challenges; and
 - To lead to better outputs and outcomes as measured against benchmarks and stated objectives.

CHAPTER 1: THE NEW FINANCIAL AND SOCIAL SECURITY POWERS

10. The new budget process will need to accommodate the new financial arrangements arising from the Scotland Act 2012 and Scotland Act 2016. Prior to these new powers being devolved the focus of the budget process was on the scrutiny of the Scottish Government's allocation of a block grant from Westminster. As the new financial powers are delivered, Scotland's budget will become increasingly complex and subject to greater uncertainty and volatility. The Scottish Government will have more choice over tax and spending, and more decisions to make about how and when to use its new borrowing and reserve powers. Through the workings of the Fiscal Framework, the Scottish budget remains inextricably tied to the UK budget, and the performance of the Scottish economy relative to the rest of the UK will have a greater influence on the Scottish budget.
11. From 2017/18 approximately 40% of the money which the Scottish Government spends will come from taxation raised in Scotland. Further taxes are also due to be devolved and the first 10 pence of the standard rate of Value Added Tax (VAT) and the first 2.5 pence of the reduced rate will also be assigned to the Scottish Government in April 2019. Around 15% of social security spending in Scotland, an estimated £2.8 bn, is also being devolved.
12. Figures 1 and 2 below highlight the extent to which the system is changing.

Figure 1

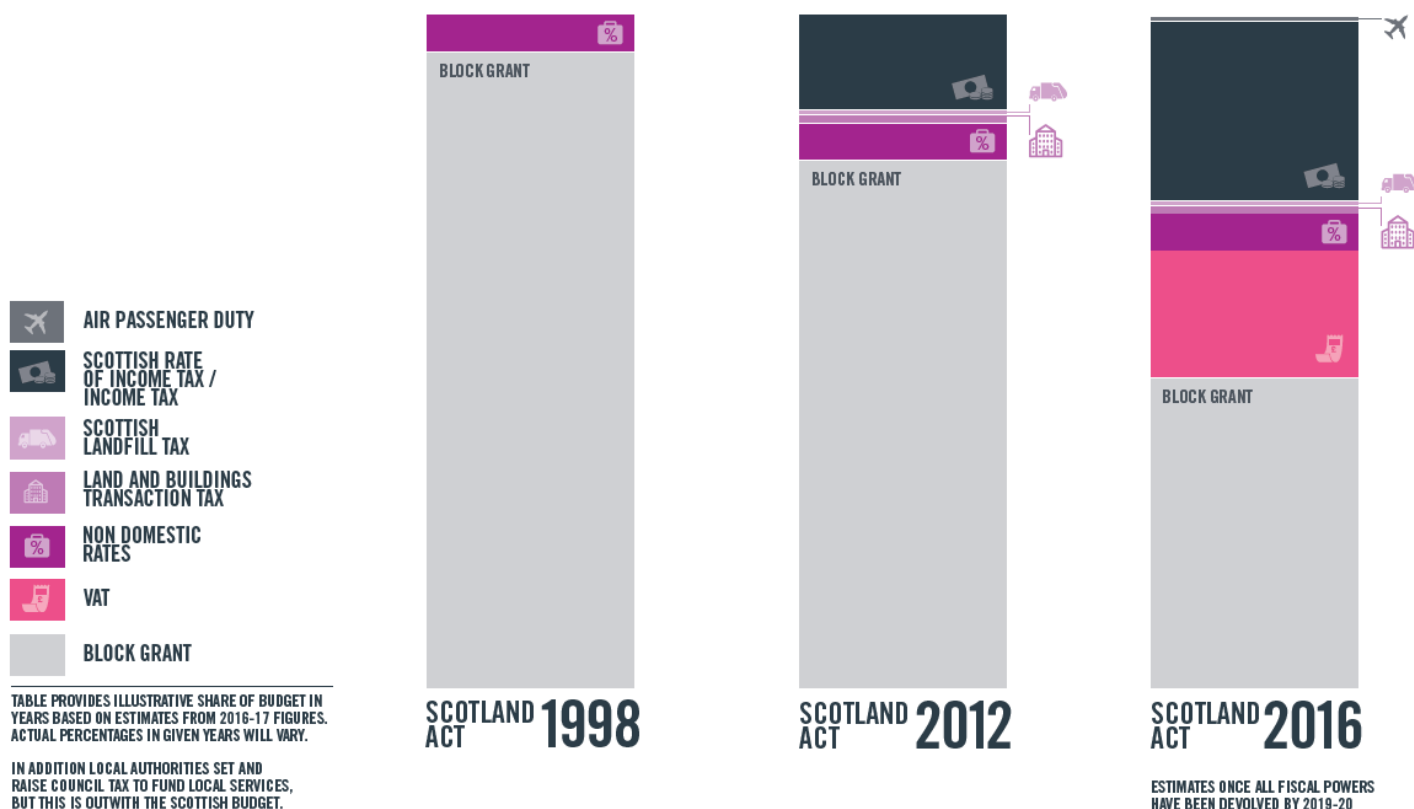
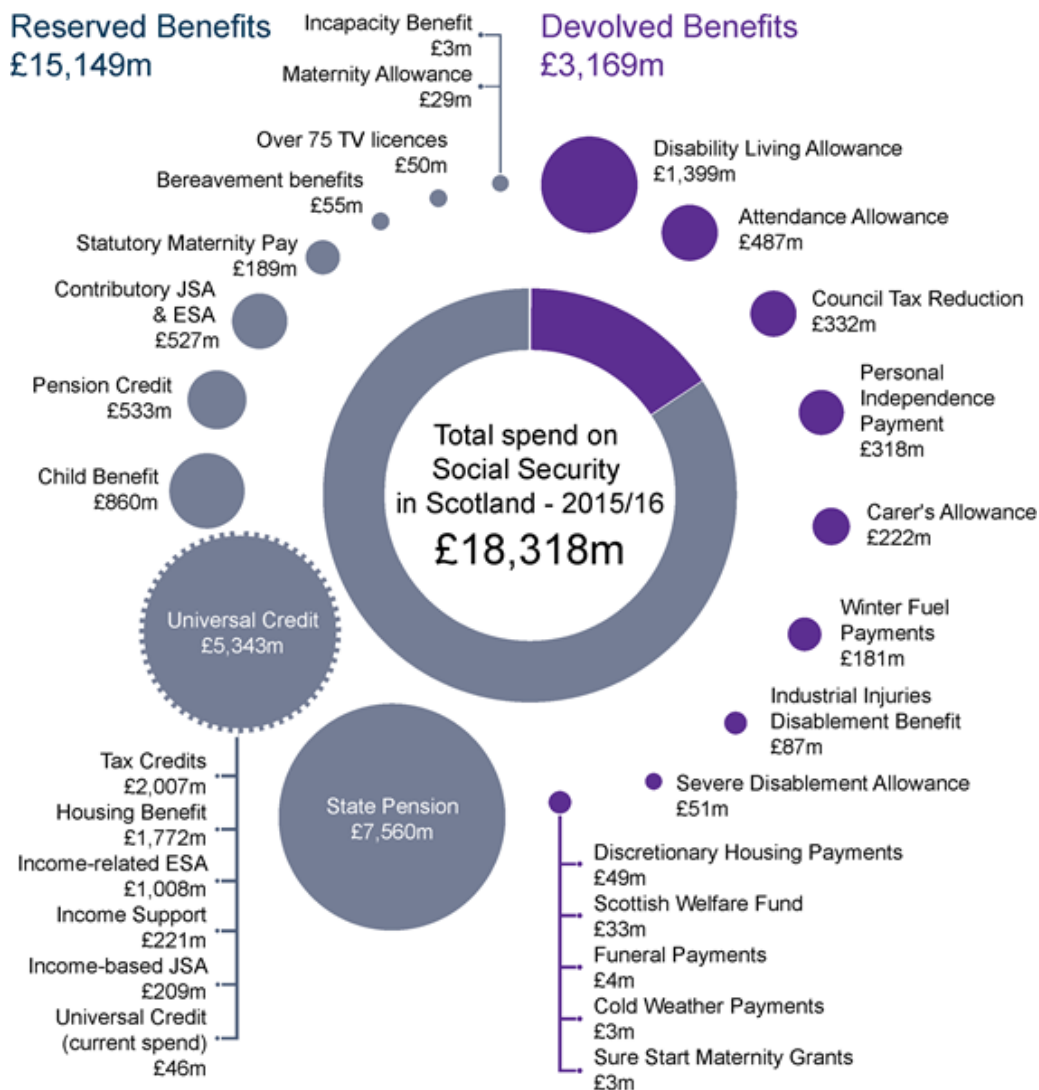


Figure 2



13. As each of these powers are introduced there is an equivalent adjustment to the size of the block grant from Westminster – a reduction for tax revenues and an addition for social security spending. This is a complex process and is governed by a Fiscal Framework Agreement⁵ between the UK Government and the Scottish Government. This sets out a series of rules and arrangements that are required to operationalise the new tax and welfare powers that are being devolved to the Scottish Parliament.

14. Key elements of the Fiscal Framework include –

- How the Scottish block grant will be adjusted to reflect the transfer of fiscal responsibilities;
- Forecasting arrangements and responsibilities;

⁵ <https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

- Arrangements for revenue borrowing and cash management to smooth revenue volatility and differences between revenue forecasts and outturn;
- Capital borrowing powers; and
- A range of other issues including administration costs, data sharing arrangements, dispute resolution, and implementation and review.

Block Grant Adjustment

15. The adjustment to the block grant (BGA) for tax revenues consists of two elements – an initial reduction and an indexation mechanism. Otherwise, the size of the baseline adjustment, in real terms, would erode over time. The initial deduction is simply equal to the tax revenues collected in Scotland in the year immediately prior to the devolution of the tax power. Thereafter the indexation mechanism provides a measure of the rate at which ‘comparable revenues’ have grown in the rest of the UK. This means the size of the BGA for each tax is dependent on the level of annual growth in the equivalent taxes in the rest of the UK.
16. The BGA for social security payments also consists of two elements – an initial addition and an indexation mechanism. The addition to the block grant is equal to the UK Government’s spending on these areas in Scotland in the year immediately prior to the devolution of the benefits (with the exception of the Cold Weather Payment).
17. The Fiscal Framework states that the BGA calculation for each tax and social security benefit will be carried out by HM Treasury at the time of the Autumn Statement “provided this occurs at least three months in advance of the start of the financial year.”⁶ It also states that where the “Scottish Government’s draft budget occurs before the UK Autumn Statement, the UK Government will additionally provide a provisional estimate of the adjustments.”⁷

6

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508102/Fiscal_Framework_-_Text_-_Annex_to_the_fiscal_framework_-_15th_March_201...pdf

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508102/Fiscal_Framework_-_Text_-_Annex_to_the_fiscal_framework_-_15th_March_201...pd

18. The Scottish budget is, therefore, now calculated as follows—



19. The calculations will initially be based on forecasts:

- of the revenues likely to be raised from the taxes in Scotland and of the comparable tax revenues in rUK; and
- of the spending on devolved social security benefits of the UK government's equivalent spending.

20. The forecasts for the taxes and social security will be prepared by the Scottish Fiscal Commission (SFC) for 2018/19 onwards. The forecasts of comparable tax revenues in the rest of the UK (rUK) and social security spending which inform the adjustments to the block grant will be carried out by the Office for Budget Responsibility (OBR).

21. So while new financial powers bring further autonomy to the Scottish Parliament, the workings of the Fiscal Framework mean the Scottish budget remains inextricably tied to the UK budget. This is not just in terms of the overall impact on Scottish Government finances, but also with regard to the timing of fiscal events at a UK level and the importance of both UK policy in tax and welfare as well as OBR forecasts to the Scottish budget. With the UK Government now committed to an annual budget in autumn, any Scottish budget produced before then could be undermined by any subsequent UK policy or forecasts changes. The timing of the UK budget affects when the Scottish Government will be in a position to produce its own firm budget proposals and, in turn, the time available for scrutiny of these by the Scottish Parliament.

22. Subsequently, there will be a series of reconciliations between the forecasts and the outturn. The technical annex to the Fiscal Framework provides some details of how the reconciliation process would work.⁸ The Group has been asked by the Finance and Constitution Committee to develop scrutiny arrangements for the reconciliation process and these are considered in Chapter 4.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508102/Fiscal_Framework_-_Text_-_Annex_to_the_fiscal_framework_-_15th_March_201...pdf

Borrowing Powers

23. Changes to both forecasts of revenues and BGA introduce substantial new sources of volatility to the overall budget and also risk, in terms of future borrowing. Under the Fiscal Framework Agreement, the Scottish Government will have the limited ability to borrow within certain, constrained parameters. Resource borrowing is restricted to up to £600m each year, within a statutory overall limit of £1.75 billion. A tightly delineated set of rules govern how these resource borrowing powers can be used in these different circumstances:

- There is an annual limit of £500m on borrowing for in-year cash management (such borrowing allows the Scottish Government to deal with the fact that the timing of the collection of its devolved revenues and its spending commitments within a year may differ);
- There is an annual limit of £300m on borrowing to account for errors in forecasts of taxes or welfare spending, and error in the forecasting of the BGAs; and
- There is an annual limit of £600m on borrowing to address any observed or forecast shortfall in revenues or welfare expenditure where there is, or is forecast to be, a Scotland-specific economic shock. The Fiscal Framework defines such a shock as periods when (on a rolling four-quarter basis), Scotland's GDP grows (or is forecast to grow) by less than 1% and is also more than 1 percentage point less than growth in UK GDP growth. Where a Scotland-specific economic shock is expected to require a higher level of borrowing, the limits may be temporarily increased as agreed between the UK and Scottish Governments.

24. The Fiscal Framework also specifies that the Scottish Government will be able to borrow for capital expenditure up to £450m annually, within an overall statutory cap of £3bn. The Scottish Government may borrow through the UK Government from the National Loans Fund, by way of a commercial loan, or through the issue of bonds.

Scotland Reserve

25. The Fiscal Framework also allows the Scottish Government to make payments up to a total of £700m into a cash reserve - the Scotland Reserve – which will be separated between resource and capital. Payments into the resource reserve may be made from the resource budget including tax receipts. Funds in the resource reserve may be used to fund resource or capital spending. Payments may be made into the capital reserve from the capital budget and capital reserve funds may only be used to fund capital spending. Payments can be used for resource spending up to £250m a year and up to £100m a year for capital spending.

26. The Cabinet Secretary for Finance and the Constitution has indicated to the Finance and Constitution Committee that operational arrangements for the Scotland Reserve are still being discussed with HM Treasury. However, the Cabinet Secretary added that it would be “prudent financial management to repay borrowing as soon as reasonably possible from surplus receipts and to exhaust funds in the Scotland Reserve before deciding to borrow, to reduce and avoid the additional cost of borrowing.”⁹ The arrangements for the operation of the Scotland Reserve have yet to be published. The Group has been asked by the Finance and Constitution Committee to consider scrutiny arrangements for the operation of the Scotland Reserve and these are also considered in Chapter 4.

Conclusion

27. The Group recognises the provisions of the 2012 and 2016 Scotland Acts and the way in which the Fiscal Framework operates are fundamentally changing the management of the public finances. There is also significantly increased complexity in the interaction between the UK budget cycle and the Scottish budget cycle. The Group also notes the view of the Finance and Constitution Committee that –

“the increased dependence of the budget on relative economic performance combined with the complexity of the Fiscal Framework means that there is now a much greater degree of volatility and uncertainty in the budget process. This uncertainty is exacerbated by the potential impact of Brexit on economic growth and the public finances.”¹⁰

28. The Scottish budget has previously always been published after the UK budget and UK spending reviews. Publishing the Scottish Budget prior to the UK budget would allow more time for scrutiny. Whilst there has always been a risk that the size of the budget would change once the UK budget is published, the potential scale of that change has increased. This is due to the possibility of changes –

- in rUK decisions on devolved policy areas, including taxes;
- in the size of the block grant;
- to the adjustments to the block grant;
- to the devolved tax revenue forecasts; and
- to forecast demand for, and UK policy changes on, social security benefits.

29. As the Group noted in the Interim Report, there is a risk that the level of uncertainty in the published numbers may undermine the credibility of the budget. The Group also recognises that while there may be greater certainty in the Scottish budget being published after the UK budget, this would substantially limit the time for scrutiny. As explained further in Chapter 2 this has been a persistent difficulty for the budget process especially in spending review years.

⁹ http://www.scottish.parliament.uk/S5_Finance/Cabinet_Secretary_to_Finance_Committee_-_Fiscal_Framework.pdf

¹⁰ <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#c>

Recommendation

- **Recommendation 2:** The Group considers that publishing the Scottish Budget prior to the UK Budget would be counter-productive due to the likely levels of uncertainty. The Group, therefore, recommends that the Scottish Budget is normally published no more than three working weeks after the UK Budget and more time is built into the budget cycle for ongoing Parliamentary scrutiny in advance of publication.

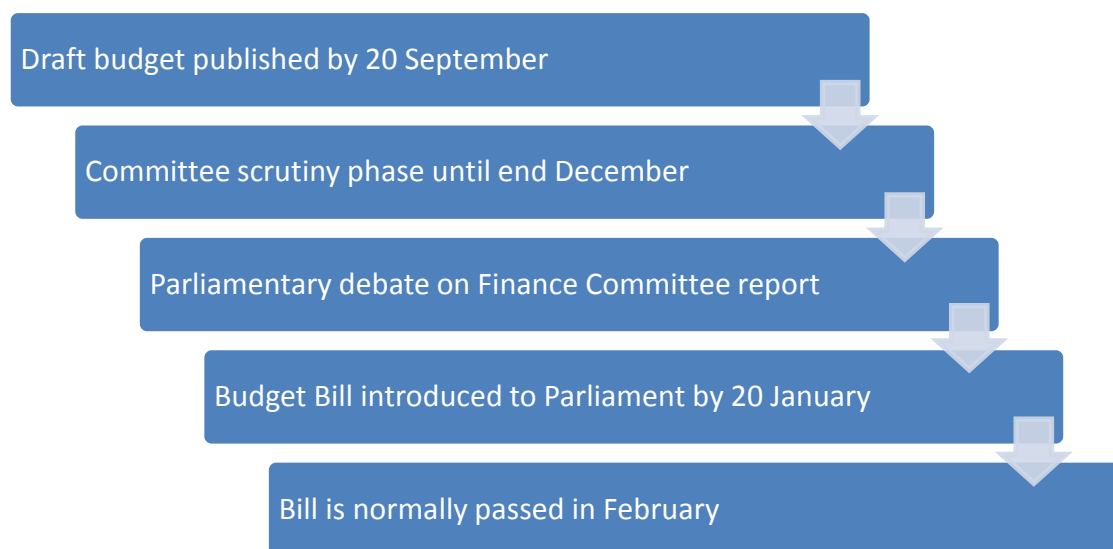
CHAPTER 2: THE EFFECTIVENESS OF THE EXISTING PROCESS

30. In considering proposals for a revised budget process the Group's starting point was to consider the effectiveness of the existing process which is based on the recommendations of FIAG. It proposed a budget process which, in contrast to that in the UK Parliament, would be open and accessible and less dominated by the Executive. The House of Commons was seen as having no meaningful input and little opportunity to influence the UK Government's budget proposals. In contrast, the Scottish Parliament would have more of a say in setting priorities for expenditure. FIAG proposed an annual three stage process –

- Stage 1 (April – June): discussion of strategic priorities;
- Stage 2 (Sep – Dec): consideration of Scottish Government's draft budget;
- Stage 3 (Jan – Feb): scrutiny of the Budget Bill.

31. As noted in the Group's Interim Report, Stage 1 has been almost continually revised since the budget process was introduced. The Group notes that it has never worked as intended by FIAG and has essentially been abandoned. This means that the current process now looks as follows –

Figure 3: The Scottish Budget Process



32. The Finance Committee in the third session of the Scottish Parliament also carried out a review of the existing budget process and its findings have been

helpful in informing the current review.¹¹ It found that the process “compares very favourably” with other legislatures and that the FIAG principles remained relevant and appropriate. However, it also found that the “implementation of these principles needed to be improved.”¹² To inform that review SPICe provided a comparative analysis of budget processes in other parliaments. This found that while the Scottish Parliament’s budget process is in line with best practice in many areas –

“It is important that parliamentarians continue to use the channels in place to seek improvements to information from the Government, and that audit findings are more systematically fed into the budget process.”¹³

33. The Group endorses the approach developed by FIAG but agrees with the Finance Committee in session 3 that the implementation of FIAG’s recommendations needs to be improved. In particular, there are three interrelated issues which require to be addressed in improving the budget process –

- **Timing:** the length of time available for budget scrutiny;
- **Scope:** the scope of budget scrutiny; and
- **Influence:** the level of parliamentary influence on the budget.

Timing

34. A weakness of the FIAG proposals is that they did not address the interaction of the UK budget timetable with the Scottish budget timetable; for example, in UK general election years when budget timetables may be altered. It is normal practice for newly elected UK Governments to publish a revised budget following a general election which may impact on the timing of the Scottish budget.

35. The FIAG proposals predate the introduction of the current approach to UK spending reviews. The difficulty for the budget process is that the timing of UK spending reviews have generally led to the Scottish budget and Scottish spending review being delayed until well after the current deadline of 20 September.

36. There have been seven occasions since devolution when the draft budget has been published later than September. It has been published three times in October, twice in November and twice in December. Primarily this has been due to the timing of UK budgets and/or spending reviews. Consequently, the time available for scrutiny in the Scottish Parliament, at the point in the budget cycle which provides greatest opportunity for parliamentary influence, has often been markedly reduced. This has led to frequent concerns being raised by subject committees about the time available for budget scrutiny.

¹¹ <http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm>

¹² <http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm> paragraph’s 18 and 19

¹³ <http://www.parliament.scot/Research%20briefings%20and%20fact%20sheets/SB08-27.pdf>

37. A recurring theme throughout this report is the extent to which the timetable for the UK budget cycle and the timetable for the Scottish budget cycle are interdependent. This interdependence is now also marked by the greater volatility, complexity and uncertainty the Scottish budget is subject to arising from the devolution of further financial powers and the Fiscal Framework agreement between the two governments. Consequently, the timing of the publication of the Scottish Government's draft budget and the time available for parliamentary scrutiny are inextricably linked with the timing of publication of the UK budget.
38. The Group's view is that this timing difficulty has been exacerbated by the emphasis which FIAG placed on the budget process being a series of discreet events. This encouraged a rigid approach based around reporting to tight and often unrealistic deadlines.

Scope

39. The Group also believes that the scope of the existing process is too narrow. Parliamentary scrutiny of the budget tends to be annualised with a focus on the allocations for the next final year in comparison with the current financial year. This short-term approach leads to an over-emphasis on "winners and losers" year-on-year. There is little consideration of long-term trends.
40. The existing process is also too input focused and forward looking with little assessment of the effectiveness of spending in delivering outcomes. There is also little consideration of the options for reallocating existing budgets. Rather, any parliamentary recommendations for policy change tend to focus on the need for additional funding rather than moving money around.
41. The Group also notes that there tends to be a silo approach to budget scrutiny. This is a consequence of ministerial portfolios which are reflected in the remits of the subject committees. The draft budget includes a chapter on each portfolio which is scrutinised by the relevant subject committee. There is little emphasis on the interdependency of many of the policies which the budget is intended to deliver. This is discussed in more detail at paragraphs 122 and 123.

Influence

42. FIAG proposed that the budget process should provide "opportunities for the Parliament to comment on expenditure priorities and to influence the Executive's preparation of budgets. This suggests committees be provided with the opportunity to comment at the planning stage." FIAG also anticipated that the Scottish Government would consult on preliminary spending proposals.
43. In practice budget scrutiny does not normally begin until after the draft budget has been published. However, the draft budget is presented as firm and detailed spending proposals rather than preliminary proposals. As noted in our Interim Report, the Scottish Government's initial work on the draft budget begins at least six months before the final publication date for the document. This is to allow sufficient time for the range of commitments, emerging pressures, savings/efficiency options that exist across the different Scottish Government

portfolios to be considered and assessed in order to arrive at a balanced set of tax and spending proposals.

44. The Scottish Government explained how the draft budget setting process works in a response to the Finance Committee in January 2012 stating that it –

“Adopts a strategic approach to policy development and decision-making through its activities, in consultation with stakeholders and guided by its Purpose of sustainable economic growth, the framework of national outcomes and the direction set by the Programme for Government and updated Government Economic Strategy. This approach is reflected in Scottish Government policy and in the spending decisions taken as a result.”¹⁴

45. The response also explains that in that context it is the responsibility of the Cabinet Secretary for Finance supported by the Director General Finance and senior officials across government to “consider and advise Cabinet collectively on budget options.”¹⁵ Once these options have been agreed and presented as a draft budget there is little evidence of any substantial change to the spending proposals resulting from the budget process. This is the case even during periods of minority government as explained by the Cabinet Secretary for Finance regarding his experience between 2007 to 2011–

“I think what you find if you look back at the budget debates of the last four years, is that broadly there was agreement on 99.95% of the budget and we only ever, I only ever, had to amend the budgets by a fraction. The largest sum of money I ever moved around in the process was about £70m or £80m which is way less than 1% of the budget – 0.25% just to be accurate about it – so the measure of agreement is there about the overwhelmingly majority of what we spend our money on.”¹⁶

46. As noted in our Interim Report these changes have tended to arise as a consequence of informal bilateral negotiations between each of the political parties and the Cabinet Secretary for Finance and the Constitution. Furthermore, any changes to the draft budget have tended to arise through additional funding rather than amending spending proposals.

47. This was again evident in the budget process for 2017/18 when the Government ensured a parliamentary majority for its Budget Bill through additional funding, including use of new tax powers, rather than a reallocation of spending proposals in its draft budget. Simply put, successive governments have generally sought to achieve support for the budget through identifying additional funding rather than amending the proposed allocations in the draft budget.

¹⁴

http://www.parliament.scot/S4_FinanceCommittee/Reports/Response_to_Finance_Committee_report_-_18_January_2012webversion.pdf

¹⁵ Ibid.

¹⁶ <http://www.holyrood.com/articles/2012/01/30/budgeting-for-the-future-exclusive-interview-with-finance-secretary-john-swinney/>

48. Overall, this suggests that the existing budget process is not delivering the opportunity for the Parliament “to influence the Executive’s preparation of budgets” as envisioned by FIAG. The Group’s view is that this is unsurprising given that parliamentary scrutiny of the budget begins *after* the Government has set out firm and detailed spending proposals. Prior to that there is little public consultation or transparency in the formulation of the budget. It is also unclear to what extent the Government consults with the public bodies in formulating the budget.

Recommendation

- **Recommendation 3:** The Group, therefore, recommends the following framework for the revised budget process –
 - **Full Year Approach:** a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals;
 - **Continuous cycle:** scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends;
 - **Output/outcome focused:** scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes;
 - **Fiscal Responsibility:** scrutiny should have a longer term outlook and focus more on prioritisation and addressing fiscal constraints and increasing demand for public services; and
 - **Inter-dependent:** scrutiny should focus more on the inter-dependent nature of many of the policies which the Budget is seeking to deliver.

49. The Group’s view is that this will require cultural change as well as changes to process and procedures.

CHAPTER 3: SPENDING REVIEWS AND MULTI-YEAR BUDGETS

50. The absence of multi-year budgets for devolved public services in recent years has been a key concern highlighted in evidence to the Group. A wide range of stakeholders suggested that single-year budgets make it more difficult for devolved public services to adopt medium term priorities and develop plans to address future challenges.
51. As noted in Chapter 2, UK spending reviews which inform proposals for multi-year budgets were introduced in 1998. Since then the Scottish Government has tended to carry out its own spending review following the publication of the UK spending review. However, there hasn't been a spending review in Scotland since 2011, which followed the UK spending review in 2010. This covered the financial years 2012/13 to 2014/15. There was a UK spending review in 2015 which covered the financial years 2016/17 to 2019/20. Since then the Scottish Government has only published single year budgets.

Purpose

52. Spending reviews are intended to provide a means via which overall expenditure can be prioritised. In this sense, spending reviews are intended not to provide a mechanism for allocating new spending proposals or monies but rather as a means of prioritising and identifying potential savings options associated with existing expenditure.
53. It is clear that the Scottish Government's ability to undertake a spending review/produce a multi-year budget settlement is inextricably linked to the approach that the UK Government takes to spending reviews. Most recently the UK Government adopted an approach that set out four year resource budget plans and five year capital budget plans immediately after the 2015 UK general election – to cover the majority of the UK parliamentary term.
54. The extent to which the Scottish Government will be able to set multi-year budgets will be determined by the number of future year budgets that the UK Government sets. It is not clear when the next UK level spending review will take place and the Scottish Government has no influence over those decisions. The Group does however recommend that the Scottish Government should undertake a multi-year budget settlement whenever the UK budget cycle would allow it to do so. The Group recognises that it may not be effective to conduct a Scottish spending review in the year before a Scottish Parliament Election. In these circumstances, the Group consider that it would be appropriate to delay conducting a spending review until after the Scottish Parliament Election. The Group also notes that, under proposals made below, the Scottish Government's broad financial plans for at least five years ahead would be available in a Medium-Term Financial Strategy (see Chapter 5).

55. The UK Government has tended to publish a framework document in advance of its spending reviews. The document sets out the economic and political context and scope of the review as well as key questions and a timetable. For example, the spending review undertaken by the UK Government in 2010 was preceded by the publication of a ‘framework’ document¹⁷ in June 2010. As well as the features already mentioned the document set out the criteria against which budgets within individual government departments would be assessed. These were as follows –

- Is the activity essential to meet Government priorities?
- Does the Government need to fund this activity?
- Does the activity provide substantial economic value?
- Can the activity be targeted to those most in need?
- How can the activity be provided at lower cost?
- How can the activity be provided more effectively?
- Can the activity be provided by a non-state provider or by citizens, wholly or in partnership?
- Can non-state providers be paid to carry out the activity according to the results they achieve?
- Can local bodies as opposed to central government provide the activity?

56. In 2010, the UK Government also provided scope for public input to the spending review following the publication of the framework document. This included a ‘Spending Challenge’ whereby public input was sought with regard to areas where efficiencies and savings could be achieved.

57. In contrast successive Scottish Governments have not tended to publish a framework document in advance of its own spending reviews. This means that there is little in the public domain regarding the purpose of Scottish Government spending reviews and how they are carried out. It is also not clear how much external consultation there is in informing the process.

Timing

58. The Scottish Government has tended to publish its spending review at the same time as the budget for the following year. For example, in September 2011 it published its spending review and Draft Budget 2012/13 in the same document. In contrast, UK spending reviews tend to be carried out separately from the UK budget. This means that the parliament’s committees are required to scrutinise the spending review and the budget at the same time. This has proved challenging especially given that, as noted in Chapter 1, the budget has tended to be published later in spending review years.

¹⁷ HM Treasury, 2010, 2010, The Spending Review Framework. Accessible at—
http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf

Conclusion

59. The Group recognises that many of the key issues highlighted in this report, including the emphasis on medium-term financial planning and a focus on outcomes, necessitates Scotland's public bodies also being able to take a strategic approach to their own finances. This requires the Scottish Government to agree multi-year budgets.
60. The Group also recognises that the opportunity for parliamentary influence on the budget is greater in spending review years when priorities are more likely to be reassessed. In contrast, changes to the budget in non- spending review years are likely to be less significant. It is, therefore, essential that the parliament has sufficient opportunity to robustly scrutinise Scottish Government spending reviews.

Recommendation

- **Recommendation 4:** The Group recommends —
 - There is a presumption that the Scottish Government will carry out a Spending Review, linked to the equivalent UK spending review;
 - The Scottish Government should report to the Finance and Constitution Committee on any plans to diverge from linking a Scottish Spending Review to the UK equivalent and the proposed reasons for doing so;
 - The Scottish Government publishes a framework document setting out the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for the review;
 - The framework document should be published prior to summer recess in order to allow sufficient time for parliamentary scrutiny and input into the spending review; and
 - The Parliament's committees undertake a constructive dialogue with the Government, public bodies, and stakeholders once the framework document is published in order to influence the outcome of the spending review

CHAPTER 4: FISCAL FRAMEWORK OUTTURN REPORT

61. The Fiscal Framework Agreement sets out a series of rules and arrangements that are required to operationalise the new tax and welfare powers that are being devolved to the Scottish Parliament.
62. The Group has been asked by the Finance and Constitution Committee to develop scrutiny arrangements for two specific elements of the Fiscal Framework –
- Operation of the reconciliation process; and
 - Operation of the Scotland Reserve.
63. A related issue is the detailed arrangements for reporting and repaying borrowing which have yet to be agreed between the UK Government and the Scottish Government. Details of the new Scotland Reserve and the Scottish Government's new resource and capital borrowing powers are set out in detail in Chapter 1.

Reconciliation Process

64. As discussed in Chapter 2 there will be a series of reconciliations between tax revenue forecasts which will inform the budget and subsequent outturn figures. Both the forecasts which are used to inform the BGA for each of the taxes and the forecast for the revenues from Scottish income tax will be reconciled with outturn figures once these are available. The technical annex to the Fiscal Framework provides some details of how this process will work which varies between each tax.¹⁸

Income Tax and VAT

65. For income tax, the forecast of revenues raised in Scotland will be available for the Scottish Government to draw down in the upcoming financial year. Once outturn figures are available (around 15 months after the end of the financial year) the Scottish tax revenues and the BGA will be recalculated. Following reconciliation any difference in the tax receipts or the BGA will be incorporated into the equivalent funding for the following financial year. There are no in-year updates to either the income tax or VAT forecasts or the associated BGAs. Arrangements for the production of VAT revenue forecasts and the process for reconciling forecast to outturn have still to be agreed.

18

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508102/Fiscal_Framework_ork - Text - Annex to the fiscal framework - 15th March 201...pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508102/Fiscal_Framework_ork_-_Text_-_Annex_to_the_fiscal_framework_-_15th_March_201...pdf)

66. Given the 15 month lag it makes sense in financial planning terms to be aware of how revenues are performing relative to forecast long before the fully audited outturn data is published. HMRC publishes monthly PAYE income tax receipts for the UK. The vast majority of income tax in the UK (around 86%) is paid by PAYE.

Recommendation

- **Recommendation 5:** The Group recommends that HMRC should publish equivalent monthly data for Scottish taxpayers.

Fully Devolved Taxes

67. The Scottish Government is able to use receipts from the fully devolved taxes as they are collected during the year to fund spending. The BGAs will therefore also be updated during the year to reflect latest forecasts of corresponding tax receipts in the rest of the UK. The Fiscal Framework states that in-year updates to the BGAs will occur at the Autumn Statement which is now the UK Budget. Once outturn receipts are available for UK Government receipts from the fully devolved taxes, the BGA will be recalculated and reconciled to the original calculation. It is expected that for the fully devolved taxes this will be in the summer following the end of the relevant financial year.

68. There is no need for reconciliation between the revenue forecasts for the fully devolved taxes and outturn figures. This is because, as noted above, the Scottish Government is able to use these receipts throughout the year. Given this the Group considers that the Parliament should also have a role in scrutinising interim outturn data for the fully devolved taxes. Revenue Scotland currently publishes interim outturn data for LBTT on a monthly basis with around a 3 week lag. It also publishes interim outturn data for Scottish Landfill Tax on a quarterly basis with a 3 month lag.

Reporting

69. The Group's view is that it is essential that there is full transparency and accessibility in the reporting of the operation of the various components of the Fiscal Framework described above. The Group recommends that the scrutiny of the Fiscal framework should be informed by two Scottish Government documents;

- Fiscal Framework Outturn Report (September)
- The Budget Document (post UK budget)

Fiscal Framework Outturn Report

70. The annual Outturn Report should include the material in Box 1 below and the report should utilise audited data as far as possible. This would focus on the operation of the Fiscal Framework. Outturn reporting on spending and the overall balance between spending and revenues is discussed in Chapter 7.

71. If the Fiscal Framework Outturn Report is published in September, it will be able to include audited outturn data for the fully devolved taxes in the previous financial year. For income tax, final audited outturn data will not be available for the previous financial year. However, HMRC will have published its Tax Financial Statements, which include an estimate of income tax outturn for the previous financial year; HMRC are committed to adding specific disclosures on Scottish income tax to this document. This estimated outturn figure should be included in the outturn report (prior to publication of final audited income tax outturn data in the subsequent year).

Box 1: Outline contents of the annual Outturn Report

Reconciliation Process

- **Outturn data for Scottish tax revenues (including comparison of outturn with forecast)**
- **Calculation of outturn BGAs (and comparison with forecast)**
- **Net budgetary position (revenue minus BGA) for each tax relative to forecast**
- **Implications of reconciliation for subsequent financial year**
- **Commentary on latest available interim outturn data on income tax.**

Scotland Reserve

- **Payments into the Reserve and withdrawals from the Reserve (with explanations for reasons for withdrawal or source of surplus)**
- **Balance of Scottish Reserve at the start and end of the previous financial year**

Borrowing

- **Borrowing undertaken during the past financial year, and assessment of how far Government remains below its various different borrowing limits (there are separate limits in respect of capital borrowing, and revenue borrowing for cash-management, forecast error and a 'Scotland-specific shock' respectively)**

- **Implications of borrowing in terms of estimated profile of future repayments**

Recommendations

- **Recommendation 6:** The Group recommends that the annual Fiscal Framework Outturn Report is based on audited information as far as possible and is published in sufficient time to allow the committees to consider it prior to the publication of their pre-budget reports. On this basis the Group recommends that the report is published in September.
- **Recommendation 7:** The Fiscal Framework Outturn Report should detail outturn expenditure on each of the social security benefits, with a comparison with the relevant forecasts. Similarly, the outturn BGA for each of the social security powers should be reported along with the relevant BGA forecast, with the aim of identifying a net budgetary position, and implications for budget management.

The Budget Document

72. With the Outturn Report having set out the issues around past performance and its implications, the budget document can focus on the forward looking aspects. This should include the material in Box 2 –

Box 2: Outline contents of the relevant section in the Budget Document

Reconciliation Process

- **The impact of the reconciliation process for each of the taxes on the budget and how this is being addressed**

Scotland Reserve

- **Planned use of the Scotland Reserve**
- **The budget should also reiterate the latest balance of the Scotland Reserve, in order that the Government's budgetary flexibility is known prior to commencement of the budget debate.**

Borrowing

- **Planned use of borrowing powers**

Revenue Forecasts

- **Commentary on the impact on the budget of the five year forecast revenues for each of the taxes minus the five year forecast BGA for**

each tax including the impact of revisions from previous forecasts.

Recommendation

- **Recommendation 8:** The Group recommends that the arrangements detailed here with regard to the Fiscal Framework Outturn report and to the Budget document should be extended to the case of the social security powers, as these are devolved to the Scottish Parliament.

CHAPTER 5: MEDIUM-TERM FINANCIAL STRATEGY

73. The Finance and Constitution Committee recommended in its report on the Draft Budget 2017/18 that the Group should explore options for a more strategic approach to financial planning, including the role of the SFC. The introduction of a Medium-Term Financial Strategy (MTFS) would represent a new development in the Scottish budget process.
74. The purpose of a MTFS would be to provide a means of focussing on the longer-term sustainability of Scotland's public finances. A MTFS approach is widely regarded internationally as a key means of undertaking effective equality budgeting. The key drivers for the preparation of a MTFS will be the revenue and expenditure forecasts produced by the OBR at the time of the UK Government's Spring Statement and subsequent SFC forecasts. The Group recognises that this is a new approach, albeit essential to the new financial structure of public finance in Scotland, and it will evolve and develop over time.

Evaluation and Formulation

75. The Group has examined whether a more strategic approach to financial planning should be introduced. This would involve the Scottish Government setting out its expectations and broad financial plans/ projections for at least the next five years following the UK Government's Spring Statement. This would be considered by the Scottish Parliament as part of the budget evaluation and formulation stage prior to detailed budget proposals being published for the following financial year. This is a critical component of a broad approach to scrutiny including economic, equality and climate change objectives. It enables parliamentary committees to consider the overall fiscal context and the financial implications of existing government policies over the years.
76. In view of the underlying changes to the Scottish budget, the Group considers it is important that in setting out its expectations, plans and projections the Scottish Government should work towards the inclusion of the following information:
- how it expects the Scottish economy to perform relative to the UK economy, and the consequences of this for devolved funding, revenues and spending/ investment;
 - the relevant policies on which the figures are based (including any changes to these that have been factored in); and
 - an assessment of the extent that actual funding and revenues might depart from central forecasts and the potential consequences of this.

Recommendation

- **Recommendation 9:** The Group recommends that the Scottish Government prepares and publishes a MTFS, setting out its expectations and broad financial plans / projections for at least five years ahead.

Timing

77. It is important to recognise that a MTFS is not the budget itself. It does not describe firm spending or tax raising proposals, or set formal limits on spending. It captures an overview of financial implications of existing policy, so that these can be understood in formulating detailed budget proposals later in the budget cycle. A key principle for the MTFS is that it is based on existing policy of the Scottish Government, and it does not consider what the effect of an alternative policy would be.

78. The Group has considered the period, timing and frequency of a MTFS, in relation to other elements of the budget process and the wider parliamentary and election timetable. On balance it has concluded that it would be appropriate for a MTFS to be prepared/updated every year on a 5-year ahead rolling basis. This would enable a medium-term perspective on the public finances to be maintained throughout each parliamentary session and support a broad approach to budget evaluation and formulation. It would also have the practical advantage of aligning the timing of Scottish Forecasts with those prepared by the OBR (and would therefore follow the UK Spring Statement).

Recommendation

- **Recommendation 10:** The Group recommends that the MTFS is published following the UK Spring Statement at least four weeks prior to summer recess. If the Scottish Government cannot meet this deadline, then it should consult with the Finance and Constitution Committee.

Content

79. The Group considered the content of the MTFS that would best support a more strategic approach to financial planning and enable effective parliamentary scrutiny.

80. The Group recognises that the content of the MTFS will be partly dependent on available resource within the Scottish Government and the approach taken needs to be cost-effective. The Group also recognises that the content of the MTFS will

develop and evolve over time. In particular, it is considered likely to develop in response to parliamentary and wider public scrutiny.

81. Given that the overall purpose of the MTFs is to provide a long-term perspective on the sustainability of devolved public finances, the Group recommends that initially the Scottish Government should work towards the MTFs consisting of the following four elements –

- Forecast revenue and demand-led expenditure estimates from SFC and their effect on Scotland public finances;
- Broad financial plans for the next five years;
- Clear policies and principles for using, managing and controlling the new financial powers; and
- Scenario plans, based on economic forecasts and financial information in order to assess the potential impact of different scenarios on the budget.

82. The potential content of each of these elements of the MTFs is considered in turn below.

Forecast Economic Performance

83. This section could consist of a commentary on the economic and fiscal outlook, including an assessment of the relative prospects for the Scottish economy drawing on OBR and SFC growth forecasts and the broad implications of UK fiscal policy.

Broad Financial Plans

84. The Scottish Government's broad financial plans for the next five years could potentially consist of a number of component parts, such as:

- an objective high-level statement of the expected level of funding, revenues and spending each year over the five year period, including spending priorities and a broad indication of future spending trends;
- an account of projected levels of revenues and funding. Such an approach could consider expected and forecast levels of block grant, devolved taxes, Scottish income tax, assigned VAT and non-domestic rate receipts. Block grant funding figures could show the anticipated operation of the Barnett formula and the expected impact of BGAs for each year of the MTFs. Such an approach may also consider expectations for both initial BGAs made on forecasts and subsequent reconciliation to actual amounts; and
- consideration of broad financial plans could also consider anticipated use of borrowing and reserves. Such an approach could explore expected movements in capital and resource borrowing and the Scotland Reserve as well as the anticipated opening and closing balances for each.

Clear Policies and Principles

85. A section setting out the key policy assumptions built into the MTFS could form part of the MTFS. Such an approach could include statements of the Scottish Government's overall priorities for tax and spending and any financial principles, targets or fiscal rules that it expects to apply during the period of the MTFS. Where the Scottish Government makes a policy announcement that has significant financial consequences, the anticipated implications of this for the MTFS could also be set out for each year of the MTFS.

Scenario Planning

86. This section of the MTFS could include a commentary on the extent to which changes in underlying assumptions / forecasts for funding, revenues and demand-led spending would affect the overall budget. Such an approach could also provide an overall assessment of the long term sustainability of the Scottish budget based on existing policy, expectations and analysis contained in the MTFS and any other information the Scottish Government considered relevant. This could also enable the provision of an analysis of the financial consequences of existing contractual and policy commitments and the extent to which the Scottish Government expects to comply with any financial principles, targets or rules it has established.

Recommendations

- **Recommendation 11:** The Group recommends that the Finance and Constitution Committee keeps under review, in dialogue with the Scottish Government, the content of a MTFS as it develops over time.
- **Recommendation 12:** The Group recommends that the Scottish Government gives consideration to the four elements outlined earlier in the report when developing a MTFS.

Scrutiny

87. The Group considered the respective roles and objectives of parliamentary committees in scrutinising the MTFS as part of their budget scrutiny activities. It concluded that an understanding of the overall economic and financial context would be important to the work of all committees, and that:

- the Finance and Constitution Committee would be best placed to focus on the overall sustainability of the Scottish budget, the main financial risks for the budget, the efficacy of tax policies and issues associated with the operation of the Fiscal Framework;
- subject committees would be best placed to focus on the high level spending information set out in the MTFS, but would also have an interest in the overall policy and financial context for these. They would also be well placed to consider what the wider implications of expectations for the performance of the Scottish economy would be for public services; and

- the Public Audit and Post Legislative Scrutiny Committee would be best placed to focus on any associated audit reporting, for example in relation to the overall financial position and the quality of financial reporting provided in the MTFS, and share its views on such areas with other relevant committees.

Recommendation

- **Recommendation 13:** The Group recommends that the Scottish Parliament's committees each consider the MTFS in the areas outlined above as part of their budget scrutiny activity.

Information

88. The Group considered the availability of the information necessary to prepare a medium-term financial strategy of the type envisaged, recognising that this would rely extensively on forecasts prepared by the SFC and the OBR, UK budget information including the outcome of spending review and the Scottish Government's own estimations, projections and evaluations.
89. The Group recognised that while anticipated aggregate UK spending levels forecast over five years would also be available at this point, that detailed UK departmental spending plans were unlikely to extend beyond the period of the most recent UK spending review. As a result details of Barnett consequentials would therefore be unlikely to be available for the whole period of the MTFS. Nonetheless the Group considered it would be possible for the Scottish Government to make some reasonable assumptions about available block grant funding beyond this period for the purposes of the MTFS, explaining the nature of these in the document and reflecting on this in its scenario planning and sensitivity analysis as necessary.
90. The Group also recognised that the Scottish Government would need to take a similar approach for the anticipated effect of reconciliation of BGAs beyond the period where outturn information was currently known. This would rely upon OBR forecasts for equivalent rUK taxes and social security expenditure.
91. The SFC would therefore have a significant role in providing forecasts for incorporation into the MTFS, in the areas set out in its statutory remit: Scottish onshore GDP; devolved taxes; Scottish income tax; non-domestic rates; demand-led social security expenditure. The SFC also has a statutory duty to assess the reasonableness of the Scottish Government's borrowing projections and the Group expected that this would be reflected in the borrowing figures provided in the MTFS. The Group also noted the requirement placed on the SFC to prepare forecasts in relation to existing Scottish Government policy, and concluded that the MTFS should also be prepared on this basis. It also concluded that clarification over the nature of such policy (as outlined above) would be essential

to understanding the basis of these forecasts.

92. The Group noted that the SFC also has discretionary powers to prepare forecasts for other 'fiscal factors' as it considers appropriate and to report on the reasonableness of such forecasts where they are prepared by the Scottish Government. The Group considered that this provided the opportunity for the SFC to extend its involvement in the provision of information for use in the MTFS, potentially in the assessment of long-term sustainability.

93. Existing requirements in the Scottish Fiscal Commission Act require the SFC to provide reports containing its forecasts on at least two occasions each year – with these currently tied to the draft budget (containing detailed budget proposals) and the Budget Bill. The wider changes to the budget process recommended elsewhere in this report would result in detailed budget proposals and the Bill being prepared concurrently. The Group concluded that the SFC should continue to be required to prepare forecasts twice a year, but that these should be linked to the preparation of the MTFS and the Budget.

Recommendation

- **Recommendation 14:** The Group recommends that the MTFS should be prepared by the Scottish Government in a way that makes use of the most up to date information and forecasts. This should include the OBR forecasts prepared at the time of the UK Government's Spring Statement each year and subsequent SFC forecasts.

94. Were the Parliament and Scottish Government to decide that there should continue to be a significant gap between detailed budget proposals and preparation of the Budget Bill, the MTFS would need to be based on the SFC forecasts prepared for the purposes of the Budget Bill. The disadvantage of this would be that these would be unlikely to reflect any updated UK data included in the UK Government's Spring Statement (unless a third set of forecasts was prepared).

Recommendation

- **Recommendation 15:** The Group recommends that the Scottish Government and Scottish Fiscal Commission work together to consider how best to ensure the information set out in the MTFS is robust and objective, respecting the different roles and responsibilities of each.

Budget Documents

95. The Group considered how information contained in the MTFS should relate to documentation at other stages of the budget process, including detailed budget proposals and outturn reporting. It recognised that key forecasts would be updated when detailed spending proposals were prepared and that the Scottish Government may choose to modify its existing policies at that point (for example by announcing new tax rates and bands). The Scottish Government may also choose to modify its spending priorities from those previously indicated in the MTFS. This would also be the case for an associated spending review in the years that one is prepared.
96. Given that changes are therefore expected in the headline figures between the MTFS and detailed budget proposals (including any spending review) subsequently prepared the Group concluded that it would be necessary for there to be a clear trail between the headline amounts set out in the MTFS and those in subsequent documents.

Recommendation

- **Recommendation 16:** The Group recommends that the Scottish Government clearly articulates in budget documents how revisions to forecasts or other estimates and any changes to current policy that are incorporated into detailed spending proposals impact on the high level figures previously set out in the MTFS.

Implementation

97. These proposals for the introduction of a MTFS anticipate the move to a revised budget process. The Group has also considered the issues associated with the implementation and transition to such an approach. It concluded that the earliest opportunity to introduce a MTFS would be following the UK Spring Statement, recognising dependencies on the OBR forecasts. The MTFS is therefore likely to first be available for the budget evaluation and formulation stage of the 2019/20 budget cycle.

Recommendation

- **Recommendation 17:** The Group recommends that a MTFS is introduced into the budget process following the UK Spring Statement at least four weeks prior to summer recess.

Social Security Powers

98. Arrangements agreed between the Scottish and UK Governments mean that formal responsibility for each social security payment is devolved at the point where executive competence passes to the Scottish Government. The Group noted that a detailed timetable for all social security payments has not been confirmed, but that the Scottish Government currently plans to introduce Carer's Allowance by summer 2018 and the Best Start Grant (replacing the Sure Start Maternity Grant) and Funeral Expense Assistance by summer 2019.
99. The question arises as to the extent to which a MTFS covering at least five years ahead should reflect social security costs and associated funding (including the relevant BGA). The Group concluded that it would be appropriate to incorporate each individual social security payment into the MTFS for a particular benefit at the point that executive competence is transferred for it. This is consistent with the principle that the MTFS should represent current policy and reflects the point at which the Scottish budget is exposed to the associated opportunities and risks.

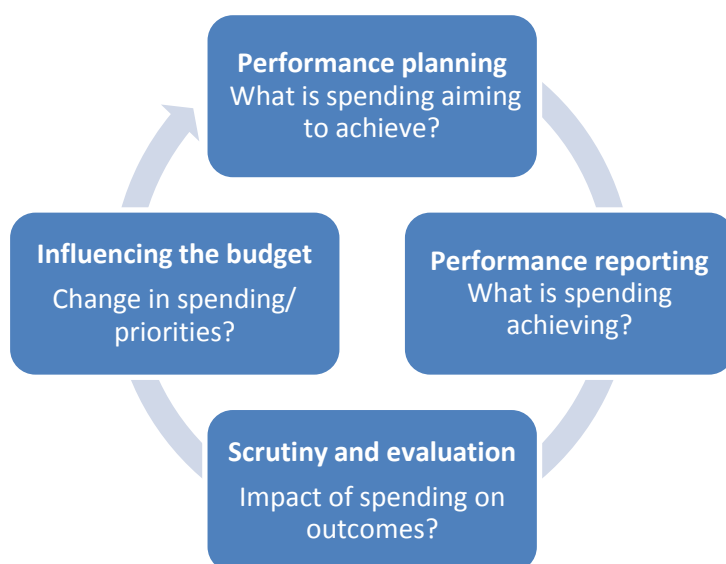
Recommendation

- **Recommendation 18:** The Group recommends that social security payments are incorporated into the MTFS on a staged basis, as executive competence for each benefit is transferred to the Scottish Government and invites the Scottish Government to consider how best to incorporate this material into the MTFS.

CHAPTER 6: OUTCOMES-BASED SCRUTINY

100. Effective budget decision making on tax-raising and spending means understanding what public spending is intended to achieve, and what is actually being achieved. An outcomes-based scrutiny approach provides a means for evaluating the economic and social outcomes being achieved by public spending. This involves bringing financial and performance information together, so that the impact of spending decisions can be better understood. The main components of this are illustrated in Figure 4.

Figure 4 – Components to establish impact of spending decisions



Overview

101. The Group considers that examining the Scottish Government's and public bodies' plans and performance will be a key part of the revised budget process. These should be based increasingly on the evidence of what's planned, what this is expected to achieve and what's working. This builds and extends the existing work of the Finance and Constitution Committee in developing a more outcomes-based approach to budget scrutiny.

102. The Group recognises that there has been significant progress in recent years by a number of Committees in focusing more on outcomes. For example, the work of the Education and Skills Committee in scrutinising how the public bodies within their remit are delivering outcomes and the work of the Health and Sport Committee in scrutinising health and social care integration budgets. This focus on outcomes will be a key component of how the Committees should seek to influence the budget.

The National Performance Framework

103. The Scottish Government is committed to an outcomes-based approach to its policies, underpinned by the National Performance Framework (NPF). Introduced in 2007 and refreshed in 2011 and 2016, the NPF sets out in the Purpose and the National Outcomes section, a clear, unified vision for Scotland. A wide range of indicators are used to assess progress towards this vision. These provide a broad measure of national wellbeing, incorporating a range of economic, social and environmental indicators and targets. The Scottish Government has stated that –

“Each government portfolio is required to set out how its spending plans support the delivery of the national outcome and this is set out in the form of a strategic overview in each portfolio chapter of the budget document. The budget also gives financial effect to the layers of policy development, consultation and decision making with delivery partners about the direction of the Government’s policies and programmes.”¹⁹

104. Intrinsic within this is a consideration not only of the assessment of progress ‘on average’, but a consideration of differential outcomes for different protected characteristics. This consideration is necessary to fulfil the duties of the Equality (Scotland) Act 2010. The Public Sector Equality Duty requires consideration of differential outcomes for protected characteristics; analysis which informs the development of revenue and spending plans.

105. The Community Empowerment (Scotland) Act 2015 embeds the outcomes approach, placing a duty on Scottish Ministers to establish a set of national outcomes and public bodies must “have regard to” in carrying out their devolved functions. The Group notes that the NPF is internationally recognised as an exemplar of an outcomes-based approach to the measurement of government performance. For example, the Carnegie Trust has stated that –

“We did not expect to find international innovation on our doorstep. But our work has repeatedly found that the Scottish National Performance Framework is an international leader in wellbeing measurement.”²⁰

106. The Scottish Government has stated that the NPF is “a single framework to which all public services in Scotland are aligned.” As such, it –

“Provides a strategic direction for policy-making in the public sector, and provides a clear direction to move towards outcomes-based policy making. It provides the platform for wider engagement with the Scottish Government’s delivery partners including local government, other public bodies, Third Sector and private sector organisations.”²¹

¹⁹ http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf

²⁰ http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf

²¹ http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf

107. The Scottish Government also reports progress against the 55 indicators in the NPF through its Scotland Performs website.²² The Scottish Government publishes a 'scorecard' to assist committee scrutiny each year setting out how it is performing against national outcomes and performance indicators. This includes performance data for the indicators that are relevant to each committee and some overall narrative for each of the national outcomes. This includes high-level information on spend, key achievements as a result of spend, the main partners involved, and how this activity is contributing towards the specific national outcome.

Recommendations

- **Recommendation 19:** The Group concluded that while the 'scorecards' provide a basis for performance reporting and public and parliamentary scrutiny, they require further development. The Group recommends that the committees should work with the Scottish Government to develop this approach as a basis of strengthening parliamentary scrutiny of outcomes.
- **Recommendation 20:** The Group recommends that the NPF is used more widely by Parliament and its committees in evaluating the impact of previous budgets. In particular, the subject committees should revisit budget documents and assess the extent to which previous spending plans are delivering the National Outcomes.
- **Recommendation 21:** Specifically, although acknowledging the scorecards already attempt to provide performance information by protected characteristic where that data is readily available, the Group recommends that the equality dimensions of the budget should become a greater priority and that there should be a plan in place over time to further develop the performance evidence base by protected characteristic.
- **Recommendation 22:** The Group also recommends that subject committees scrutinise the extent to which the NPF informs the layers of policy development, consultation and decision making with delivery partners that are then given financial effect in the budget.

108. The Group also considered whether it would be helpful to build further material on the National Outcomes directly into budget documentation, or to fundamentally realign the structure of the budget so that there was a direct read across to national outcomes. It concluded that the interrelated nature of outcomes, with spending in one area often contributing to a number of separate outcomes, makes such approaches impractical and unwieldy. They would also risk weakening accountability as many impacts cannot be clearly attributed.

²² <http://www.gov.scot/About/Performance/scotPerforms>

109. Instead, the Group concluded that such information should be contained in the relevant policy documents, strategies and plans that the Scottish Government publishes, including the Equality Budget Statement. This means in setting out its policies and plans in a particular area the Scottish Government would provide clear narrative explaining the link between a particular priority, policy or initiative and the expected impact on outcomes (including differential performance by protected characteristic), making direct reference to the NPF. It would also set out the intermediate outputs, measures and milestones that will be used to monitor progress of its plans. This would include any significant changes to public spending that are anticipated and how these support the Scottish Government's long-term ambitions.

110. It will be important that there are then clear links into detailed budget proposals and spending review. This means that these budget documents would show how any new policies, strategies or plans developed by the Scottish Government are being funded for each of the years they cover. This allows specific spending proposals to be traced to the relevant policy or planning document and onward to anticipated impact on outcomes. The initial focus of this would be newly developed policies and plans. As these are refreshed across all areas of public policy an increasing proportion of the budget would be linked more clearly to outcomes.

Recommendations

- **Recommendation 23:** The Group recommends that the Scottish Government may wish to pilot a shift from a portfolio approach (where budget headings are arranged according to the responsibilities of individual ministers) to a programme approach (where budget headings are arranged according to relevant policy areas, for example health and social care) for a particular budget heading(s).
- **Recommendation 24:** The Group recommends that the Scottish Government ensures that any new policies, strategies or plans clearly set out the outcomes they are aiming to achieve and the intermediate outputs, measures and milestones that will be used to monitor progress towards this. It should be clear how spending on the particular policy or activity will contribute towards improving specific national outcomes in the NPF, including cross-cutting issues such as equalities outcomes.
- **Recommendation 25:** The Group recommends that the Scottish Government clearly links its detailed annual spending proposals and multi-year spending review to relevant policies, strategies and plans. These should clearly articulate the associated public expenditure consequences.
- **Recommendation 26:** The Group recommends that there needs to be greater visibility in how individual policies and plans relate to agreed national outcomes, including cross-cutting outcomes such as equalities outcomes, and that wherever possible there should be a clear link between individual policies and plans and budget documentation. Taken together this would better show how the Scottish Government's allocation of resources contributes to its priorities, long-term aims and improved outcomes.

Public Bodies

111. Public bodies and councils have an important role in delivering Scottish Government policy and contributing towards improved outcomes. Decisions about their overall funding are a key part of the budget process, but the detailed use of this is determined at a local level. The Finance and Constitution Committee has previously invited subject committees to consider the extent to which public bodies are spending their allocations well and achieving outcomes.²³

²³

http://www.scottish.parliament.uk/S5_Finance/General%20Documents/Convener_to_Convener_guidance_2016.30.06.pdf

112. Public bodies publish corporate plans which set out in detail how each organisation plans to use their available public resources. They are required to consider the National Outcomes in carrying out their functions. Increasingly public bodies are also required to coordinate their activity through formal partnership arrangements and joint planning.
113. Public bodies also publish a range of information about their performance in the application of public spending. This includes annual reports and annual accounts. The Scottish Government is required to follow the Government financial reporting manual (FReM) guidance on the presentation of annual reports and accounts.
114. According to the FReM, the purpose of the “performance analysis” section of annual reports “is for entities to provide a detailed performance summary of how their entity measures its performance, more detailed integrated performance analysis and long term expenditure trend analysis where appropriate”²⁴.
115. The Scottish Government’s sponsorship guidance and the Model Framework Document for NDPBs outline that public bodies’ corporate plans (normally covering a 3 year period) should demonstrate how bodies are aligning with the NPF. More detailed annual business plans including key targets and milestones will complement corporate plans.
116. The Group considers that while this material provides a basis for financial and performance reporting by public bodies it requires further development to more effectively support public and parliamentary scrutiny. Key areas for further development include a more consistent approach by public bodies in how they report on performance, outputs and outcomes in their annual reports and accounts. The key characteristics of effective annual performance reporting by public bodies should include:
- a balanced and objective account of performance;
 - clearer reporting of spending against activities and services, rather than departments or organisations;
 - information about trends and changes in spending over time (covering multiple years); and
 - narrative on what spending is achieving and how it is contributing to outcomes, supported by output measures and indicators.

²⁴<https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018>.

Recommendations

- **Recommendation 27:** The Group recommends that public bodies should consistently set out how they plan to contribute towards specific national outcomes in the NPF in their published corporate and business plans. Where possible, this should also include links to planned spending, the specific outputs that are expected and how these contribute to national outcomes.
- **Recommendation 28:** The Group recommends that the Scottish Government guidance is clear that public bodies should report on their contribution to the NPF through their annual reports to best support parliamentary scrutiny of their activities and public spending.

117. The Group considered how such approaches are being deployed in other countries, including the comprehensive approach of New Zealand. It concluded that while there was not a readily available solution that could be successfully transferred to the Scottish context, it was important to build on existing performance planning and reporting arrangements to provide a clearer focus on outcomes. This should support a more continuous cycle of outcomes-based scrutiny, enabling Committees to take a broader and long-term perspective on the economy, efficiency and effectiveness of spending by the Scottish Government and public bodies. The main components of this are illustrated in Figure 5 on page 48.

Recommendations

- **Recommendation 29:** The Group recommends that the Scottish Government and public bodies strengthen their performance planning and reporting to provide a greater focus on the delivery of outcomes. This means providing better information about what activity public spending will support, what this aims to achieve, the contribution this is expected to make to outcomes, how plans are being delivered and the impact this is having. This should include the impact of new policies and significant changes to spending priorities and link with setting and reporting on equality outcomes.
- **Recommendation 30:** The Group recommends that committees consider relevant Scottish Government and public body performance plans and reports, alongside other available evidence on the intended impact of policies and public spending and the effect these are having. This should be a key part of how they evaluate public spending and how they seek to influence the formulation of future spending proposals.

Scrutiny and Evaluation

118. Progress towards improved outcomes tends to happen over a longer period and is likely to extend beyond a five-year parliamentary term. An outcomes-based approach to scrutiny will require committees to take a long-term view that recognises the overarching financial, economic and policy context in which the Scottish Government aims to deliver its long-term ambitions.
119. All committees should have a focus on equalities scrutiny and be supported to develop the competence and capacity to engage effectively.
120. The Group recognised that committees would be unlikely to be able to undertake detailed scrutiny of spend and performance in all areas under their remit every year. It concluded that it would be necessary for them to agree the themes or area of activity they wished to focus on, and those they wished to track through time. Considerations might include –
- the policy and spending priorities of the Scottish Government;
 - significant areas of public spending or significant changes to spending levels;
 - importance to specific national outcomes that the committee has an interest in, including overarching equality considerations; and
 - where progress of national outcomes is slow or going in the wrong direction.
121. The Group concluded that it was important for committees to take a broader approach to budget scrutiny. This would mean shifting the focus from annual changes to inputs to the difference spending makes. Scrutiny of the selected areas should consider what is being spent overall, what this is achieving in terms of specific output and outcome measures, and if it is offering value for money. Key scrutiny questions could include:
- What funding has the Scottish Government allocated through time to this policy / priority and what is this intended to achieve?
 - To what extent are the strategies and financial plans of the Scottish Government and relevant public bodies having their intended effect?
 - What contribution is being made towards improving National Outcomes? What are spending and performance trends over time?
 - What changes to future resource allocations, priorities or policies might be needed? and
 - What progress has been made in advancing equality and in tackling underlying inequalities?

Interdependent Policies

122. As highlighted in Chapter 1, one of the challenges which the Parliament faces is how to address the inter-dependency of many of the policies and objectives which inform the budget. For example, many of the outcomes in the NPF, such as tackling inequalities, addressing climate change and improving health and wellbeing, cut across several policy areas. This means that many policies and objectives span the remit of more than one committee.

123. The Group notes that the Finance and Constitution Committee has previously sought to address this issue by identifying interdependent policy challenges in its annual draft budget guidance to the subject committees. The Group considers that there is an opportunity to develop this approach within the proposed budget evaluation and formulation activity.

Recommendation

- **Recommendation 31:** The Group recommends that the Finance and Constitution Committee continues to identify a small number of interdependent policy challenges and objectives in its annual Budget guidance to the subject committees.

Basket of evidence

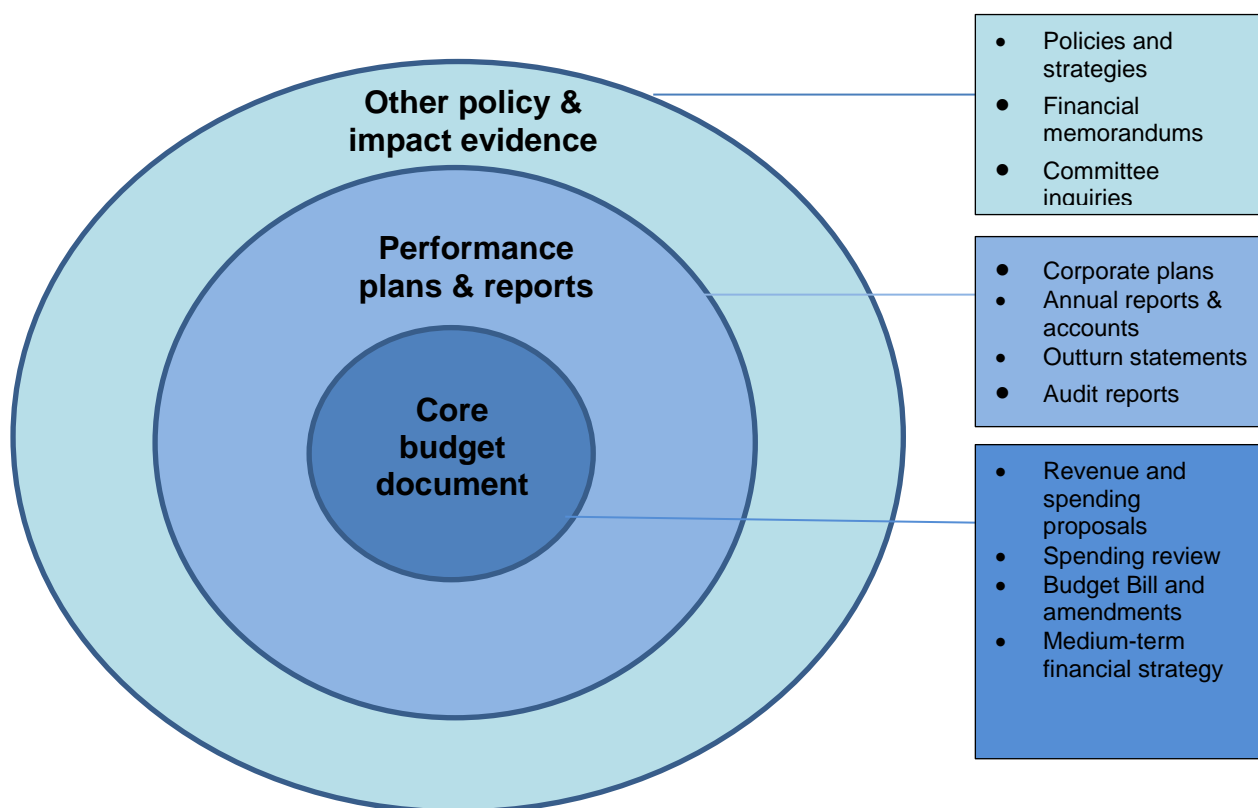
124. A critical aspect of the Parliament's budget evaluation and formulation activity is that it is evidence-based. This helps the Parliament contribute to the evidence base available for policy setting and for it to influence the Scottish Government's budget decisions. To support their scrutiny of selected themes or areas of activity, committees are able to draw on a basket of evidence drawn across a range of sources. This includes published material, as well as requesting written submissions and oral evidence sessions with ministers, Scottish Government officials, public bodies, service users and other stakeholders.

125. The Group considered the range of evidence likely to be available to committees, and a summary of this is shown in Figure 5. It concluded that committees should draw flexibly on the available basket of evidence in a manner that they consider best suits their remit and the themes or areas of activity that they had selected for scrutiny. This would mean considering –

- The aspects of core budget documentation that was relevant to their remit;
- Performance planning and reporting documentation directly relevant to the focus of their scrutiny activity; and
- Other policy and impact evidence they considered could best support their scrutiny in the selected areas.

126. A figure showing a more continuous cycle of outcomes-based scrutiny is shown below –

Figure 5 – Information to support outcomes-based scrutiny



- **Core budget documents:** documents that set out the Scottish Government’s short to medium-term spending plans and priorities, including the medium-term financial strategy, spending review, Equality Budget Statement and budget.
- **Performance plans:** policies, strategies, corporate plans and financial plans of the Scottish Government and relevant public bodies that set out what they are aiming to achieve and how much this is expected to cost.
- **Performance reports:** reports by the Scottish Government and public bodies that provide information on their performance against specific measures and indicators, audit reports, national indicators in the NPF.
- **Other policy and impact evidence:** Scottish Government policies and strategies, policy and financial memoranda accompanying relevant bills, outputs from the other work of the committee, data and evidence gathered through the PSED reporting process, SPICe briefings, research and publications by academic institutions and the private and voluntary sectors.

127. The Group concluded that there is scope for committees to make better use of audit reports as part of this basket of evidence used to support their evaluation of public spending. This includes performance audit reports and annual audit reports on individual public bodies. These reports provide objective information and independent assessment on the public finances, performance and value for money. Audits often examine whether public money is being used to best effect to support the delivery of improved outcomes. There is an ongoing programme of

work undertaken on behalf of the Auditor General and Accounts Commission that can be drawn from to support outcomes-based scrutiny by Committees. Auditor General Reports should continue to be considered by the Public Audit and Post-legislative Scrutiny Committee in the first instance.

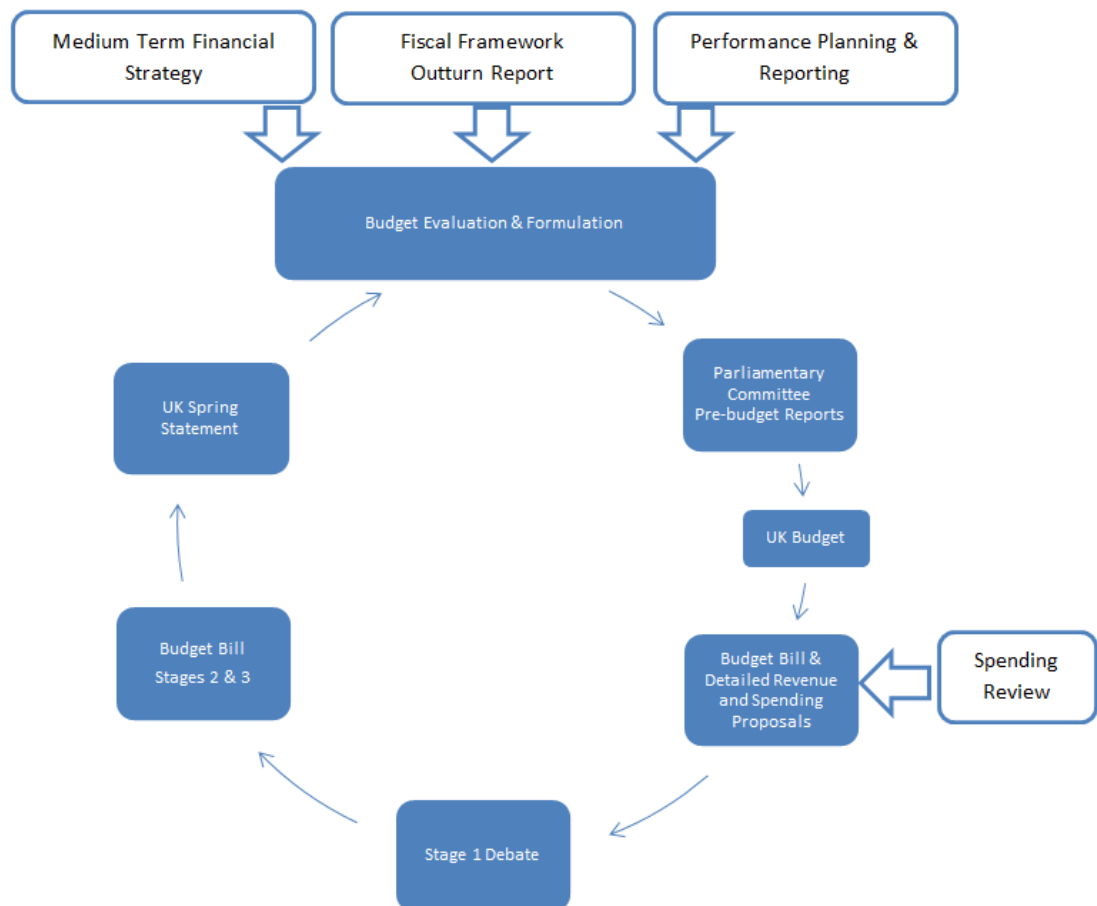
Recommendations

- **Recommendation 32:** The Group recommends that committees draw on available evidence in their budget evaluation and formulation activity in a manner that they consider best suits their remit and the themes or areas of activity that they had selected for scrutiny as outlined above.
- **Recommendation 33:** The Group recommends that Committees make use of audit reports prepared on behalf of the Auditor General and Accounts Commission as sources of evidence when evaluating previous budgets and scrutinising the impact of spending on outcomes.
- **Recommendation 34:** The Group recommends that the Public Audit and Post-legislative Scrutiny Committee continues to consider Auditor General reports in the first instance, bringing to the attention of relevant Committees any specific aspects that they consider merit consideration as part of budget scrutiny. It should also continue to seek the views of other Committees on areas that they would wish to see covered in future performance audits for the consideration of the Auditor General and Accounts Commission.

CHAPTER 7: PROPOSED REVISIONS TO THE EXISTING PROCESS

128. The Group recommends a revised structure for the budget process as illustrated in Chart 1.

Chart 1: Overview of Revised Budget Process



Evaluation and Formulation

129. A weakness of the current budget process is that scrutiny does not begin until *after* the Scottish Government’s firm and detailed spending proposals are published and then tends only to focus on a single year. There is little emphasis on seeking to influence the formulation of the Scottish Government’s spending proposals or evaluate the impact of previous budgets.

130. In contrast, the Group agrees with FIAG that the optimum period for the Parliament’s committees to influence the budget is when policy priorities are being set. As noted previously the Scottish Government begins work on its draft budget at least six months before it is due to be published. The Group’s view is

that it is during this period that the Parliament's committees should be primarily seeking to influence the budget.

131. As discussed in Chapter 6 the evaluation of the impact of previous budgets will be a key element of the revised process. Committees should highlight the impact of spend in the particular areas they have looked at, whether there is evidence what is intended is being achieved and if it is offering value for money (economy, efficiency and effectiveness). Committees should also highlight the committee's views on the implications for future spending plans and priorities.

Recommendations

- **Recommendation 35:** The Group recommends that each committee includes its findings on the impact of spending on outcomes in its pre-budget report in October. The report should highlight their views on implications of these findings for future spending plans, including any proposed changes to policy priorities or allocation of resources.
- **Recommendation 36:** The Group recommends that committees should seek to influence the formulation of spending proposals through a constructive dialogue with ministers, public bodies, other stakeholders and the public. This should be evidence based and include a review and evaluation of existing policy priorities, including equalities objectives and how these are being funded and implemented and what is being achieved. Consideration should also be given to the financial, economic and policy context.
- **Recommendation 37:** The Group recommends that there should be a greater emphasis by the committees in scrutinising the impact of new policy priorities on the Budget. This should include how both legislative and non-legislative policy announcements are funded in the budget. Committees will want, for example, to scrutinise how estimated funding in financial memoranda has been reflected in the budget.

Documentation

132. To improve the work of the committees in evaluating and influencing the budget the Group emphasises the need for a renewed focus on openness and transparency in budget documentation. The Group recognises that budget documentation has been improved since devolution. The Group also recognises that the Scottish Government continues to be willing to work with the Parliament to improve budget documents.

133. The introduction of an annual medium term financial strategy and fiscal framework outturn report will be important documents in supporting the work of Committees in evaluating and influencing the budget. As well as additional documentation the Group's view is that there is also a need for Committees to make better use of existing documents especially in relation to the evaluation of

previous budgets and future plans. For example, as discussed in Chapter 6, a greater use of Audit Scotland documents including performance audits and public body annual reports. In addition, there is also scope for the Government and public bodies to develop existing documents, including the Equality Budget Statement and PSED reports, to support an improved focus on outputs and outcomes.

Reporting

134. FIAG anticipated that the Finance Committee would “play a co-ordinating role in indicating its view of overall priorities at an early stage.” On this basis the subject committees currently report to the Finance and Constitution Committee with their views on the draft budget including any alternative spending proposals.
135. In practice though it is difficult for the Finance and Constitution Committee to provide a view on the findings of the subject committees who have built up particular expertise in their area. In particular, the Group can find no evidence of any Finance Committee acting as an arbiter in deciding on the merits of competing subject committee recommendations.

Recommendations

- **Recommendation 38:** The Group recommends that there should be no requirement for the subject committees to report to the Finance and Constitution Committee. At the same time, the Group believes it is essential that the Finance and Constitution Committee scrutinises the aggregate spend and recommends it continues to focusses on the wider picture of revenue and expenditure and whether they are appropriately balanced and also on the longer-term sustainability of the budget.
- **Recommendation 39:** The Group recommends that, in order to exert influence on the formulation of spending proposals, Committees should write to their respective Ministers at least 6 weeks prior to the Budget being published setting out their policy priorities. Committees should set out their views, in their pre-budget reports, on the delivery, impact and funding of existing policy priorities and any proposed changes including any proposed new policy priorities.
- **Recommendation 40:** The Group recommends that this should be a cumulative process and that committees should build up an evidence base throughout each session of the Parliament through, in particular, the evaluation of the impact of previous Budgets and progress in achieving objectives.

Public Engagement

136. Public engagement in relation to the budget process consists of two main components. Firstly, the provision of budgetary information to enable and enhance public understanding of the Scottish budget. More specifically, FIAG adopted two key objectives in relation to budgetary information which the Group endorses. These were to provide the —

- information which the Parliament needs to make properly informed and timely decisions, to judge the probity and value of the actions of the Executive; and
- Scottish people with understandable, consistent, relevant and timely information.

137. Secondly, public engagement as a means via which stakeholders and the public more generally can influence the budget-setting process. For FIAG, this was reflected in their view that the budget process should provide the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process.

138. The Group considers that whilst the first of these objectives has been achieved to a limited extent, the second has proved more challenging.

Public Understanding

139. The increased complexity of the budget resulting from the operation of the Fiscal Framework intensifies the need to enhance public understanding of the Scottish budget. It is recognised that there will be a range of ‘audiences’ for budgetary information ranging from the public to stakeholders and those engaged in parliamentary scrutiny. Tailoring information to different audiences will be key to effectively enhancing public and professional understanding of the budget. For example, the Scottish Government produced a short guide to Scotland’s public finances alongside the 2017/18 draft budget to assist with public understanding of the Scottish budget.

Recommendation

- **Recommendation 41:** The Group recommends that –
 - Enhancing public and professional understanding of the budget process should be a key objective for the Scottish Government and parliamentary committees engaged in budget scrutiny; and
 - The Scottish Government produce a broader range of public information including info-graphics and citizens guides on the operation, and content, of the Scottish budget.

Participation and Influence

140. The Group emphasises that the year-round scrutiny approach proposed in this report will provide a wider range of opportunities for the public to engage with the budget process both within the Parliament and indeed the Scottish Government. This approach reflects our core objective to raise public understanding and awareness of the budget. This approach also provides a wider range of opportunities for public engagement in both the evaluation of the impact of previous budgets and in seeking to influence the formulation of future budgets. In relation to evaluation, committees may wish, for example, to seek the views of public service users as well as providers, and to take action to include evidence from equalities groups. In relation to formulation of future budgets, this approach provides the space for a constructive dialogue to take place between the public, public bodies, parliamentary committees and the Scottish Government with regard to policy priorities for the budget.

141. The Group has considered a range of innovative approaches to public participation in both budget setting and parliamentary scrutiny. These approaches have included citizen juries and assemblies, deliberative polls and stakeholder partnerships. Whilst recognising that this is a difficult aspect of the budget process to operationalise and that participatory budget processes are frequently more effective at a local than national level, the Group considers that subject committees have a key role in providing a mechanism for the public to influence policy priorities which will inform the formulation of the Scottish Government's budget.

142. The Scottish Government has a central role in engaging the public in the development of the budget. In particular, the participation of the Scottish Government within the subnational pilot programme of the 'Open Government Partnership' (OGP)²⁵ represents a substantial commitment to public engagement with the budget process. The OGP is a multi-lateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption and, harness new technologies to strengthen governance. The five commitments²⁶ which the Scottish Government has signed

²⁵ Details on the role of the Open Government Partnership can be accessed at—
<https://www.opengovpartnership.org/>

²⁶ The five commitments in the Scottish National Action Plan to be delivered in 2017 are:

1. Financial Transparency: to clearly explain how public finances work, so people can understand how money flows into and out of the Scottish Government, to support public spending in Scotland
2. Measure Scotland's progress: by making understandable information available through the National Performance Framework, which will be reviewed to reflect our commitments to Human Rights and the Sustainable Development Goals
3. Deliver a Fairer Scotland: through implementation of the actions developed with civil society through the Fairer Scotland action plan
4. Participatory Budgeting: to empower communities through direct action ensuring they have influence over setting budget priorities

up to in terms of its involvement within the OGP are strongly welcomed by the Review Group. The Group considers that the OGP has the potential to act as a catalyst for transformative change in public engagement with budget setting in Scotland.

143. The Group has considered examples of Open Budgeting and the use of information technology within the Open Government Partnership as a means of enhancing public participation with the budget. The Group considers that the examples of jurisdictions such as Mexico, Madrid and Cincinnati, in developing web portals or open source platforms provide a model for active citizen engagement with budgetary information that is clear, consistent and accessible to citizens.

Recommendation

- **Recommendation 42:** The Group recommends –
 - Subject committees should undertake public engagement on policy priorities, within their remit, prior to the publication of, and in order to inform, the Scottish Government’s budget;
 - Subject committees should also engage with service users as well as service providers in evaluating the impact of previous budgets;
 - The Scottish Government should consider what effective citizen engagement can be undertaken as part of the year round budget cycle detailed in this report; and
 - The Scottish Government should consider how to improve the accessibility of budget information and citizen engagement with the budget process.

Equalities

144. The scrutiny of equality issues has been a core consideration for the Group in considering the structure of the budget process and in recognition of the importance of equal opportunities in the founding principles of the Scottish Parliament. The Group’s work in considering equalities issues has been informed by the OECD Gender Budgeting Toolkit and IMF paper on Gender Budgeting in G7 countries. To date, the main expression of equalities issues within the budget process has been the publication of an Equality Budget Statement alongside the draft budget. The Group recognises that the publication

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5. Increasing Participation: improving citizen participation in local democracy and developing skills to make sure public services are designed with input from users and with user needs to the fore.

of the Statement is a welcome development and supports the role of the Equality and Budget Advisory Group (EBAG) in influencing the Scottish Government's approach to considering equalities and the budget.

145. However, the Group considers that there would be benefit in publishing additional equalities information prior to the summer recess to allow this information to provide meaningful input into, or to influence, budgetary decisions. Accordingly, whilst the purpose of the current Equality Budget Statement is being met, the Group considers that the focus and coverage of such a publication should be reviewed and that this should be led by EBAG. It is vital that the link between equality and budgetary considerations is maintained, therefore there should be an equality product published alongside the budget, but that there would be benefit in supplementing this document with separate equalities analysis published before summer recess in order to reflect the changing nature of the budget process.

146. The Group recognises that budget allocations and scrutiny of the choices made in allocating budgets is central to equality outcomes. The Group considers that there is an opportunity to build on the Equality Budget Statement approach though integrating evidence based assessment of equality impacts throughout all stages of the year-round budget approach detailed in this report. Accordingly, the Group considers that undertaking equality analysis applies to all aspects of the budget process and therefore is a responsibility for all parliamentary committees undertaking budget scrutiny. Similarly, demonstrating that equality analysis has been undertaken is also a requirement which should be integrated within all budget documentation, such as reporting on the NPF and a Medium Term Financial Plan, and not solely the Equality Budget Statement.

147. This approach should enable the equality impacts arising from tax and expenditure proposals and decisions to be assessed and evaluated through mainstreaming equality impacts across all budget documentation. In particular, the Scottish Government should consider undertaking equality incidence analysis (before summer recess) that quantifies the impact of budget measures, both in terms of taxation, social security and expenditure, on equality groups - in particular gender, race and disability - alongside other distributive impacts based on household income. The regularity of the production of this information/analysis will need to be considered.

Recommendation

- **Recommendation 43:** The Group recommends that the Scottish Government should explore the feasibility of providing a distributional analysis, by equality characteristic, of the taxation, expenditure and social security proposals contained in the budget.

148. As noted above, the Equality Budget Statement is published alongside the draft budget and the Group considers that supplementing this with additional

information earlier in the process would allow for meaningful input into the budget decision-making.

149. Given that the Scottish Government budget will now be published after the UK budget the Group considers that this further diminishes the time available to scrutinise the equality implications of the Scottish Government budget. The Group considers that this change in the timetable for publication of the Scottish and UK budgets requires that the additional equalities information, including a distributional analysis, be published following the UK Spring Statement in order to evaluate the impact of the taxation and social security measures passed by the Budget Bill at the beginning of the year. Such an approach would result in the additional equalities information being published prior to the summer recess and thereby facilitate a constructive dialogue to take place on equalities issues in order to influence the budget later in the year.
150. Consistent with the approach to opening up opportunities for scrutiny throughout the annual budget cycle, the Group recognises the opportunities to work towards a cycle of *ex-ante*, *concurrent*, and *ex-post* equalities scrutiny of the budget process as recommended by the OECD.
151. The Group recommends that the Equality and Budget Advisory Group, in conjunction with other Scottish Government departments and SPICe, consider the development of appropriate analytical tools to support the process of introducing *ex-ante*, *concurrent*, and *ex-post* equalities scrutiny of the budget and considers the format of the additional equality information/publication and where this best fits into the process.

Climate Change

152. The group considered the implications of the budget in terms of climate change. Currently the two main considerations of climate change in relation to the budget arise in the Scottish Government's 'Details of funding for climate change mitigation measures' publication, which is published shortly after the Draft Budget and the Scottish Government's 'Carbon Assessment of the Draft Budget' which is published at the same time as the draft budget.
153. However, the Group is aware that following the publication of the Climate Change Plan in early 2018, the Scottish Government will start to report on the Climate Change Plan monitoring and evaluation framework later that year. It is not clear at this stage whether the annual reporting against the framework could form a useful additional element to the pre-legislative phase of the budget scrutiny process, but the Group believes that this should be considered by the Scottish Government as it develops its climate change reporting approach.

Budget Bill

154. A Budget Bill is a specific category of Government Bill that meets the definition set out in section 29(3) of the Public Finance and Accountability (Scotland) Act 2000 – i.e. making provision, for any financial year, for all or any of the following matters –

- (a) authorising the use of resources by the Scottish Administration, or by anybody or office-holder (other than an office-holder in the Scottish Administration) whose expenditure is payable out of the Scottish Consolidated Fund under any enactment;
- (b) authorising payment of sums out of the Fund;
- (c) for sums which are payable into the Fund to be applied for any purpose instead of being paid into the Fund; and
- (d) specifying the maximum amount of relevant expenditure for the purposes of section 94(5) of the Local Government (Scotland) Act 1973 (c.65) and maximum amounts of borrowing by certain statutory bodies.

155. The Budget Bill authorises expenditure. It does not contain any measures to raise revenue. There is, however, a connection in relation to setting out the use of powers on income tax. The process for parliamentary approval of the taxes has developed incrementally since 1999. As a consequence, there are a number of different mechanisms that are used to authorise the collection of revenue. This is discussed in more detail below.

Budget Document

156. As a result of the changes proposed in this report, there will no longer be a draft budget process and therefore the Draft Budget Document will no longer require to be produced. Instead, the content of the former Draft Budget document will now be published as the Scottish budget alongside the Budget Bill.
157. As noted above, the Group recognises that the accessibility and transparency of existing budget documents has increased over time the current review provides an opportunity to implement further improvements.

Recommendation

- **Recommendation 44:** The Group recommends that the Scottish Government should consider the following changes prior to the Scottish Budget 2018/19 in order to improve the accessibility and transparency of the Budget –
 - The factual content of budget proposals is separated from any political narrative.
 - There should be a consistent approach to the presentation of financial data within the budget document. This financial information should be available to Level 3.
 - Budget aggregates should be comparable year on year including reflecting the impact of changes to Ministerial portfolios.
 - The budget document should include historical analysis of financial information by portfolio as well as against key budget aggregates (including capital and revenue allocations).
 - In addition, there needs to be clarity regarding the relationship between budget allocations and available funding in different parts of the budget document. Spending allocations across all portfolios within the budget document must be reconciled with available funding.
 - All aspects of Scottish Government expenditure should be separately identified within the document on a consistent basis. Where allocations to individual organisations are derived from different budget portfolios this needs to be set out consistently and transparently.
 - There should be consistency in the period covered by the Budget which should also be retrospective covering at least two prior years as well as forward looking.
 - Clear financial information on the operation of Scotland Act 2012 and 2016 powers.
 - The provision of Level 4 financial information to be published alongside the publication of formal budgetary information in the same manner as is currently the case.

Stage 1

158. As noted in Chapter 1 the Group recommends that the Budget Bill and the Budget document should be published no more than three working weeks after the UK Budget. If the UK Budget is published around the same time as the Autumn Statement then the Scottish Budget should be published prior to Christmas recess. As soon as the timing of the UK Budget is known the Scottish Government should consult with the Finance and Constitution Committee regarding the timing of the Scottish Budget.
159. The Budget document should include a summary of how the submissions from the Parliament's committees have influenced the formulation of the Budget. Ministers should also be required to provide a more detailed written response to individual Committees within five sitting days from the publication of the Budget. Each Committee will then hear oral evidence from their respective Ministers.
160. Committees should then consider whether they are content with the Scottish Government's response and it is at that stage that they should consider the need for any alternative spending proposals. Committees and individual Members will, as they are now, be able to propose alternative revenue and spending proposals through reasoned amendments to the motion on the general principles of the Budget Bill at Stage 1. For example, the Finance Committee proposed a reasoned amendment to the motion on the general principles of the Budget Bill at Stage 1 in January 2009 –
- “But, in so doing, recommends that the Scottish Government (a) brings forward proposals setting out how, over the period covered by the Spending Review, the level of police recruitment can be increased beyond that currently planned and (b) considers whether there is scope to increase the business rate reductions applying in 2008-09 beyond those stated in the Spending Review as the first stage of the acceleration of the reductions, setting out what changes will be required to the 2008-09 Budget as a result.”²⁷
161. The Group also notes that subject committees have very little role within the current budget process once they have reported to the Finance Committee on the draft budget. In particular, the subject committees do not tend to participate in the plenary debates on the draft budget and the Budget Bill. There is therefore a risk that the findings of the subject committees on the budget are not debated by the Parliament. This risk has become more acute due to the increased parliamentary scrutiny of the new tax and borrowing powers. As more time is devoted to the scrutiny of the new financial powers there is a need to ensure that this does not dilute the scrutiny of the existing expenditure powers.

²⁷ <http://www.scottish.parliament.uk/parliamentarybusiness/report.aspx?r=4769&i=39570>

Recommendations

- **Recommendation 45:** The Group recommends that the Finance and Constitution Committee reports on the budget once it has been published. As discussed above the focus should be on the wider picture of revenue and expenditure and whether they are appropriately balanced. This would include scrutiny of the operation of the Fiscal Framework, the new tax and borrowing powers and in-year budget revisions.
- **Recommendation 46:** The Group recommends that time is provided for a committee debate in the chamber prior to the Stage 1 debate on the general principles of the Budget Bill. Time should be provided during the debate for each relevant convener to set out how their committee has sought to influence the budget and to allow the Government an opportunity to respond. The debate should be led by the Finance and Constitution Committee.

Stages 2 and 3

162. One of the main considerations of the Group was whether non-Government Members should be allowed to lodge amendments to the Budget Bill at Stage 2 and Stage 3. FIAG recommended that only Ministers should have the opportunity to formally amend the Budget Bill. As discussed earlier this is based on FIAG's view that the "the right time for the main parliamentary input is not at the budget approval stage but at an earlier stage in the process, when priorities are being set." Professor Wehner states in his report for the Group that to "be a meaningful actor in the budget process, legislators should have the authority to make recommendations" but that the "Westminster tradition suppresses outright parliamentary amendments"²⁸.

163. Professor Wehner points out that there are various options for the level of parliamentary authority to lodge amendments. Options could include unlimited powers to lodge amendments to the Budget bill or limiting the powers to shifting expenditure from one item to another or by reducing an expenditure.

164. In its review of the budget process in 2009 the Finance Committee did not receive any evidence which supported allowing formal non-Government amendments to the Budget Bill. The Finance Committee recommended that –

"The current timetable and procedures for the Budget Bill scrutiny provide an appropriate balance between Scottish Government control of budget initiation

²⁸ Wehner (2017) 'Good Practice in Parliamentary Budget Scrutiny: International Comparisons', p.24. Accessible at: http://www.parliament.scot/S5_Finance/Reports/2017.03.09_Joachim_Wehner.pdf

and opportunity for scrutiny and influence by the Parliament. There is no evidence to support change to this.”²⁹

165. A key question for the Group was whether the proposed changes in the timing of the publication of the budget should require any change to the procedure for amendments to the Budget Bill. The evidence which the group received on this issue was mixed. Some submissions suggested that given the limited time to scrutinise the budget that formal non-Government amendments should be allowed.

166. In contrast a number of other submissions argued against non-Government amendments on the basis that it would increase uncertainty for public bodies in setting their own budgets. This latter view is similar to FIAG’s position that allowing formal non-Government amendments “would mean local authorities and others would face difficulties in setting their budgets since they require a firm indication of the resources likely to be available to them by December.”³⁰

167. The Group’s view is that there needs to be the right balance between providing for meaningful parliamentary influence in setting the Budget while allowing the Government to retain overall control of the public finances. A full year approach to budget scrutiny (in which parliamentary influence is primarily prior to firm spending proposals) combined with the power to lodge reasoned amendments at Stage 1, provides for meaningful parliamentary influence. At the same time, continuing with the procedure that only ministers can formally lodge amendments at Stage 2 allows the Government to retain overall control of the public finances.

Recommendation

- **Recommendation 47:** The Group, therefore, recommends that there should be no change to the current procedure whereby only ministers can lodge amendments to the Budget Bill at Stage 2 and Stage 3.

168. This would not alter the current process whereby if the Parliament agrees a reasoned amendment to change the Budget at Stage 1, ministers will not be procedurally required to lodge formal amendments at Stage 2.

²⁹ <http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#20>

³⁰ <http://web.archive.org/web/20041221003156/http://www.scotland.gov.uk:80/government/devolution/fia-g-03.asp>

Recommendations

- **Recommendation 48:** The Group recommends that if ministers do not intend to lodge formal amendments to reflect any reasoned amendments agreed at Stage 1 then they must provide a written explanation to the Finance and Constitution Committee in advance of Stage 2.
- **Recommendation 49:** The Group also recommends that any changes to the Scottish Government's published spending proposals during the budget process must be dealt with through amendments to the Budget Bill at Stage 2 and Stage 3.

Legislative and Non-Legislative Procedures for Taxation Powers

169. The process for parliamentary approval of the devolved taxes has developed incrementally since 1999. As a consequence, there are a number of different mechanisms that are used to set or amend tax rates and bands, or authorise the collection of revenue.

170. The Scottish Parliament has the power to set rates and bands for non-savings, non-dividend income tax but the administration and collection of the tax remains reserved to Westminster. The Scottish Parliament's power to set the rates and bands is provided by the Scotland Act 2016 and is exercised through a Scottish rate resolution rather than through primary or secondary legislation. A motion for a Scottish Rate Resolution can be lodged only by the Scottish Government and cannot be amended (Section 80c of the Scotland Act 1998 and Rule 8.10).

171. Where a Budget Bill is dependent on a particular Scottish rate resolution, Stage 3 proceedings on the Bill cannot begin until the Parliament has agreed to the motion for the resolution (Rule 9.16.7). Other revenue-raising measures – for example, the ability to set rates for the devolved taxes such as LBTT and Scottish Landfill Tax – do not have any similar procedural link to the Budget Bill process

172. Changes to the rates and bands for LBTT and Scottish Landfill Tax are made through the Provisional Affirmative procedure –

“Which deal(s) with emergency situations – and which can be made and come into force straight away but which require(s) subsequent approval by the Parliament to remain in force.”³¹

173. In practice, this means that Ministers may lay subordinate legislation which could, for example, vary tax rates or bands with immediate effect. The lead committee then has 28 days to scrutinise the legislation before making a

³¹ http://www.parliament.scot/S5_Delegated_Powers/Guide_to_SSIs.pdf

recommendation to the Parliament as to whether or not it should be approved. If the Parliament does not agree the motion the SSI will fall and the rates or bands would revert to their original levels.

174. The Group notes though that this means that changes to the rates and bands for LBTT and Landfill Tax are made through the Provisional Affirmative procedure regardless of whether the changes are to come into force immediately. For example, the Scottish Landfill Tax (Standard Rate and Lower Rate) Order 2017 was laid on 27 January 2017 meaning the 28 day date by which the Committee was required to report its recommendations to the Parliament was 4 March. The Order provided for the rates for landfill tax to increase in line with inflation from 1 April 2017.

175. Changes to the rates and bands for the Air Departure Tax are made through the Affirmative procedure. This means that Ministers are not able to change the rates and bands with immediate effect. The lead committee has 40 days to scrutinise the legislation before making a recommendation to the Parliament as to whether or not it should be approved.

176. Parliamentary authority for raising revenue via Non-Domestic Rates (NDR) is also dealt with via subordinate legislation, via the negative procedure. A number of subordinate legislation instruments are considered by the Local Government and Communities Committee as the means of providing parliamentary scrutiny of the Scottish Government's NDR policy. For example, the Local Government and Communities Committee considered eight negative statutory instruments as part of its scrutiny of the 2017-18 budget.

177. In addition, it should be noted that the Parliament considers a Local Government Finance Order, in February, which details the individual revenue allocations to local authorities. Once the Order has been passed this then enables local authorities to set their budgets for the forthcoming years and also to agree the level of council tax.

178. Alongside these, other changes to tax legislation can be proposed by the Scottish Government. Some of these changes may have financial implications, although small in relative terms, relating for example to the introduction, amendment or removal of reliefs. At present, any such proposals to amend the taxes are brought forward by the Scottish Government, usually following consultation, on an ad-hoc basis.

179. Not all changes to the taxes can be made through the use of secondary legislation. For example, the LBTT Additional Dwelling Supplement (ADS) was announced by the then Cabinet Secretary for Finance, Economy and Sustainable Growth in December 2015, with a 'go-live' date of 1 April 2016. To accommodate the go-live date, the timeline for Parliament's consideration of the Bill was truncated to 6 weeks, with the Bill introduced to Parliament on 27 January and the stage 3 debate on 8 March. The truncated timeline also impacted on the opportunity for consultation and stakeholder engagement on policy proposals and the project to deliver the necessary systems changes, processes, guidance and

communications programme required to implement the ADS.

180. It is quite possible that in future years there will be tax instruments announced in the UK Autumn Budget such as the ADS Bill which could impact on Scotland's devolved taxes and require to be implemented by the following April. The Group received proposals for an alternative legislative process that is agile enough to respond quickly and effectively to these requirements.

181. The Group also received views that consideration should be given to a bespoke legislative procedure for minor changes to primary tax legislation where there are no powers to amend an Act through subordinate legislation. Such a procedure would apply to changes to how taxes operate, rather than to the tax rates and bands.

Recommendation

- **Recommendation 50:** The Group recommends that further work is undertaken by the Finance and Constitution Committee in consultation with the Scottish Government, Revenue Scotland and others to explore options for alternative legislative processes for devolved taxes legislation, particularly where tax measures need to be introduced quickly or where minor amendments are needed to existing primary legislation.

Finance Bill

182. The Group considered whether the various revenue related powers should be collectively included in a Finance Bill. At Westminster, the UK Government's annual Finance Bill, supported by Ways and Means resolutions and the Provisional Collection of Taxes Act, is the legislative means of raising revenue and introducing other relevant tax changes. This provides a single legislative vehicle for revenue related changes requiring primary legislation, both new taxes and changes to existing taxes. Amongst other things, this approach allows for the UK Government to amend taxes in advance of scrutiny by Parliament of the draft legislation to deliver changes.

183. The Group recognises that there may be good reasons for the introduction of a Finance Bill including the objective of raising public understanding and awareness of the Budget. The Group also recognise though that this is a complex issue and may require changes to primary legislation in both Westminster and the Scottish Parliament.

Recommendation

- **Recommendation 51:** The Group recommends that the Scottish Government in consultation with the Finance and Constitution Committee examines the need for a Finance Bill and brings forward any recommendations by the end of the current Parliament.

Budget Revisions

184. The Group notes that the process for Budget Revisions will also need to change to reflect the increasing impact of further devolution and the changes to the funding arrangements for the Scottish Government, consistent with the change to the Budget documentation. The increased complexity and potential volatility of the Scottish budget will also need to be reflected.

185. Budget Revisions allow the Scottish Government to make in-year changes to the Budget Act for that financial year through subordinate legislation. Revisions are normally produced twice yearly in 'autumn' (usually October) and 'spring' (usually January). The main types of changes contained in the Budget Revisions are as follows:

- Funding changes which have arisen in-year. This involves, for example, the allocation of any Barnett consequentials from UK fiscal events and the allocation of underspends from the previous year.
- Net Whitehall and HM Treasury transfers to/from the Scottish Government. This involves any inter-government transfers ring-fenced for a particular activity. Recent examples have included a Whitehall transfer from the Business Energy and Industrial Strategy Department for Citizens Advice Scotland and an HM Treasury transfer for the V&A museum in Dundee.
- Net technical adjustments, which have included Annually Managed Expenditure (AME) budget, cover from HM Treasury for provisions and impairments; and adjustments to align the budget with accounting requirements. These are usually technical accounting adjustments and don't impact on discretionary spend.
- Transfers of resources between Scottish Government portfolios which have no net overall effect on the budget. This essentially allows for the SG to manage their resources – for example, if it looks like one particular budget line is not going to be spent within the year, resources can be moved to other budget lines where there is demand.

186. Budget Revisions are subject to the affirmative procedure for the consideration of subordinate legislation. The Finance and Constitution Committee is then invited to recommend to the Parliament that the Budget (Scotland) Act Amendment Regulations be approved.

Recommendations

- **Recommendation 52:** The Group recommends that the Spring Budget Revision should be accompanied by a mid-year report on revenue and spending up to the end of December of the current financial year. These mid-year reports should be scrutinised by the Finance and Constitution Committee alongside Amendment Regulations.
- **Recommendation 53:** The Group recommends that the Finance and Constitution Committee monitors the impact of the new financial and social security powers, and the operation of the Fiscal Framework, on the process for Budget Revisions, and reports on the need for any changes by the end of the current Parliament.

Outturn reporting

187. Increased volatility and uncertainty mean that transparent reporting of annual outturns (what was actually raised and spent during the year) and the overall financial position is particularly important. This includes information on resource and capital spending, the overall outturn position, and any the reasons for significant variances between budget and outturn. It is also important to have a good awareness of the full range of potential financial commitments which depend on events in the future.
188. The Scottish Government already publishes a range of financial and economic information, and is continuing to develop its approaches. It is increasingly important to present this in a way that provides a comprehensive picture of the public finances, including an overall account of the revenues, spending, assets and liabilities of the Scottish public sector as a whole.

Recommendation

- **Recommendation 54:** The Group recommends that as the Scottish Government continues to develop its financial reporting the Finance and Constitution Committee considers how outturn reports should be used to inform budget scrutiny.

Financial Memoranda/Financial Resolutions

189. The Group notes that some of the Parliament's procedures in relation to its financial powers, as set out in its Standing Orders, may need reviewed to reflect the new taxation powers. For example, the rules on the contents of Financial

Memoranda (FMs) are expressed in terms of costs and the rules on Financial Resolutions refer to increases in expenditure or increases in any charge or any payment to be made. This means that, for example, legislation proposing to reduce revenue from a tax will not have the same visibility, even though it may have significant implications for the Scottish budget.

Recommendation

- **Recommendation 55:** The Group recommends that the Finance and Constitution Committee should consider examining further the rules on FMs and Financial Resolutions to ensure that they reflect the new taxation powers.

Contingent Liabilities

190. The process for parliamentary scrutiny of contingent liabilities is set out in the Written Agreement³² between the Finance and Constitution Committee and the Scottish Government. Based on FIAG's recommendation the Scottish Government is required, before it can grant any guarantee or indemnity in excess of £1m, to submit its proposals to the Finance and Constitution Committee.

191. The Committee is then required to take evidence from the relevant minister before deciding whether to approve the proposal or to propose an amendment or to recommend that the proposal is rejected. If the Scottish Government does not agree with the Committee's recommendation then the Committee following consideration of additional information from the Government may either allow ministers to proceed or refer the matter to the Parliamentary Bureau for debate.

192. The Group has been asked by the Committee to consider the process. In particular, the Committee has raised concerns about the lack of flexibility in the current approach and whether the £1m threshold continues to be appropriate.

Flexibility

193. The Group notes that the Finance and Constitution Committee is required to take evidence from the relevant minister on any proposed contingent liability in excess of £1m. This is a different approach to for example, the consideration of FMs where it is a matter for the Committee to decide whether or not it wishes to take oral evidence from the Scottish Government.

³² http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/Written_Agreement_-_Revised_April_2015.pdf

Recommendation

- **Recommendation 56:** The Group, therefore, recommends that the Written Agreement is amended to allow the Finance and Constitution Committee to decide the level of scrutiny which it deems to be appropriate in relation to contingent liabilities. This should include allowing the Committee to decide whether to agree a proposal without having to take oral evidence from the relevant Minister.

Threshold

194. The Group also considered whether there was a need to amend the current threshold of £1m. The scale of the budget managed by the Scottish Government has risen considerably since the threshold was originally set. Setting a revised threshold in similar proportion to the current overall budget would suggest an uplift to £2.5m. The Group also notes that at Westminster the UK Government is required to notify Parliament of any contingent liabilities above £300,000.

195. The Group's view is that it is essential that there is transparency in relation to contingent liabilities but as noted above there is also the need for flexibility in the scrutiny process. The Group notes that the Scottish Government already publishes details of contingent liabilities in its financial accounts.

Recommendations

- **Recommendation 57:** To further increase transparency the Group recommends that all contingent liabilities above £300,000 should be notified to the Finance and Constitution Committee. The Committee would then have the opportunity to decide what action if any it wished to take on the contingent liability.
- **Recommendation 58:** The Group recommends the threshold for the Scottish Government seeking approval from the Finance and Constitution Committee should be raised to £2.5 million and that a new process of notification of new contingent liabilities between £300,000 and £2.5m should be introduced.

CHAPTER 8: CONCLUSION

197. The Group’s recommendations for a revised budget process are summarised in Table 1 below.

Table 1: Components of Revised Budget Process

Activity	Purpose	Key documentation
Budget evaluation and formulation	Committees seek to influence the budget prior to firm proposals being published through constructive dialogue with ministers, public bodies and other stakeholders. This is based on evidence gathering, review and evaluation of existing policy priorities, how these are being funded and implemented and what is being achieved. This includes consideration of the financial, economic and policy context and should be a cumulative process throughout each session of the Parliament.	Medium Term Financial Strategy (Post UK Spring Statement) – SG. Fiscal Framework Outturn Report (September) – SG. Performance planning & reporting – SG, public bodies, auditors & Public Audit committee.
Pre-budget reports	Each committee writes to ministers at least 6 weeks prior to the publication of the budget setting out their views on the delivery and funding of existing policy priorities, any proposed changes and how these should be funded.	Pre-budget reports – committees
Budget Bill & Budget Document	Ministers publish Budget Bill and Budget Document no more than three working weeks after the UK budget. The Budget Document should include a summary of how the submissions from committees have influenced the formulation of the proposals alongside a Budget Bill. Within five sitting days of the budget being published ministers will provide a more detailed written response to individual committees. Ministers then provide oral evidence to committees. Committees consider whether they are content with the Government response and may suggest alternative proposals	Budget Bill – SG Budget document incorporating Spending Review when undertaken – SG Ministerial responses to pre-budget reports – SG Other supporting documentation – SG Equality Budget Statement – SG Committee Pre-Budget reports

	<p>through reasoned amendments to the Government's motion on the general principles.</p> <p>Each committee convener is allocated time in a chamber debate on pre-budget reports.</p>	
Budget Bill: Stage 1 debate	Committee conveners move any reasoned amendments if selected by the Presiding Officer.	Budget Bill reasoned amendments (January) – Committees
Budget Bill: Stages 2 & 3	Scottish Government may lodge amendments at Stage 2 and Stage 3. This may include in response to reasoned amendments agreed by the Parliament at Stage 1. If the Government does not intend to lodge amendments to reflect reasoned amendments agreed at Stage 1 then ministers must provide a written response in advance of stage 2 for consideration by the Finance and Constitution Committee.	<p>Ministerial response to reasoned amendments (February) – SG</p> <p>Budget Bill amendments (February) – SG</p>
Budget Revisions	Scottish Government may make Regulations to amend budget totals in accordance with any provisions in the Budget Bill. The Finance and Constitution Committee will consider whether it is content with these, making reference to a report on annual revenues & spending to date.	<p>Budget amendment Regulation (November / February) – SG</p> <p>Supporting documentation (November/ February)– SG</p> <p>Mid-year report on revenue & spending (February) - SG</p>

Implementation and Review

198. The Group notes that the operation of the fiscal framework will be subject to a review following the provision of an independent report, to both the Scottish and UK governments, by the end of 2021. The Group considers that following the review of the operation of the fiscal framework by the Scottish and UK governments and the agreement of any changes to the fiscal framework, would provide an appropriate juncture for the Scottish Parliament and Scottish Government to review the operation of the budget process recommended in this report.

199. The Group has noted earlier that the recommendations in this report will require to be phased in. An implementation timetable for key recommendations

made in this report is provided at annexe B to this report.

Recommendation

- **Recommendation 59:** The Group recommends that the Scottish Parliament and Scottish Government review the revised budget process following the outcome of the review of the fiscal framework.

Annexe A – Engagement with External Stakeholders

The Group would like to thank the following individuals for their contributions;

- Professor David Bell, University of Stirling
- Vicki Bibby, Chief Officer Local Government Finance, COSLA
- Brenda Campbell, Corporate Director, COSLA
- Dr Jim Cuthbert, Jimmy Reid Foundation
- Dr Craig Dalzell, Common Weal
- Professor Susan Deacon, University of Edinburgh
- Doreen Grove, Consultant, Scottish Government Open Government Partnership
- Clare Hammond, Senior Consultant, Rocket Science
- Professor David Heald, University of Glasgow
- Bill Howat
- Fraser Kelly, Chief Executive, Social Enterprise Scotland
- Lucy McTernan, Deputy Chief Executive, Scottish Council for Voluntary Organisations (SCVO)
- Professor Charles Nolan, Former Commission Member, Scottish Fiscal Commission
- Scherie Nicol, Policy Analyst, Budgeting and Public Expenditure Division, Organisation for Economic Co-operation and Development (OECD)
- David Phillips, Senior Research Economist, Institute for Fiscal Studies
- Keith Redpath, Chief Officer, West Dunbartonshire Health and Social Care Partnership
- Professor Graeme Roy, Director, Fraser of Allander Institute
- Sarah Walker, Deputy Director Devolution, HMRC
- Dr Joachim Wehner, Associate Professor in Public Policy, London School of Economics
- Dr David Wilson, International Public Policy Institute, University of Strathclyde

Annexe B – Implementation Timetable

The table below details the stage in the year-round budget cycle when key events in the proposed budget process and the date of implementation when these events will first occur.

Document	Timing in Budget Scrutiny Cycle	Date of Implementation
Framework Document for a Scottish Spending Review	Prior to summer recess in a Spending Review year	(Prior to summer recess) – Next Spending Review year
Medium Term Financial Strategy	Following the UK Spring Statement and at least four weeks prior to the summer recess	At least four weeks prior to summer recess 2018
Additional Equalities Information	Prior to the summer recess	Spring 2018
Fiscal Framework Outturn Report	September	September 2018
Budget Document, Budget Bill and Equality Budget Statement	No more than three working weeks after the UK Budget	Autumn 2018
SFC Forecasts post Spring Statement	At the same time as the Medium Term Financial Strategy	At least four weeks prior to summer recess 2018
SFC Forecasts post UK Autumn Budget	At the same time as the Scottish budget	Autumn 2017
Parliamentary Committees Pre Budget Reports	At least six weeks prior to publication of the Scottish Budget	Autumn 2018
Budget Bill Process		
Committees' Debate	Following publication of the Budget Bill and before Stage One debate	January / February 2019
Stage One		January / February 2019
Stage Two		January / February 2019
Scottish Rate Resolution		January / February 2019
Stage Three		January / February 2019

Annexe C - Glossary

Annually Managed Expenditure (AME)

Spending included in *Total Managed Expenditure (TME)* that does not fall within *Departmental Expenditure Limits (DELs)*. Expenditure in AME is generally less predictable and controllable than expenditure in DEL and therefore needs to be —annually managed— rather than determined on a longer term basis, like NHS and teachers' pensions.

Capital Expenditure

Capital expenditure on physical assets, e.g. expenditure on new construction, land, extensions and alterations to existing buildings and the purchase of fixed assets such as plant and machinery. Includes central government capital expenditure and central government support for local authorities' capital expenditure

Current Expenditure

Also known as revenue or resource expenditure. Includes most direct expenditure on public sector pay and providing services, e.g. health or education, reflecting continuing programmes financed each year. It does not include the purchase of tangible, physical assets.

Departmental Expenditure Limits (DEL)

Departmental Expenditure Limits (DEL) form the majority of the Scottish Government's budget. This is the budget provision that the Scottish Government can plan and control over the Spending Review period. The DEL budget is presented for both resource DEL and capital DEL as follows:

- Resource DEL – current expenditure such as pay or procurement;
- Capital DEL – for new infrastructure investment and net policy lending; and
- Ring fenced Resource DEL (non-cash) – depreciation or impairment costs associated with the ownership of assets. HM Treasury rules mean that this element of the overall DEL budget cannot be used to fund pay or procurement costs and as such this budget does not represent spending power for the Scottish Government.

Financial Issues Advisory Group (FIAG)

FIAG was set up in February 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be —open, accessible and accountable to the people of Scotland. As a result of these recommendations (which

are enshrined in the *Public Finance and Accountability (Scotland) Act 2000 (asp no 1)*, the Parliament has the opportunity to comment on the Government's spending plans at several points during the year prior to the annual budget being agreed.

In-Year Changes

Changes to expenditure allocations during the budget year.

Level 1/2/3/4 Information

Terms used to express spending at different levels.

- **Level 1:** Expenditure recorded at portfolio level. For example, Health and Sport, Education and Skills or Justice.
- **Level 2:** Expenditure recorded at sub-portfolio level. For example, Community Health Services (within Health and Sport), Scottish Funding Council (within Education and Skills) or Scottish Prison Service (within Justice).
- **Level 3:** Expenditure recorded below sub-portfolio level. For example, General Dental Services (within Community Health Services), College Operational Expenditure (within Scottish Funding Council) or Capital Spending (within Scottish Prison Service).
- **Level 4:** Level 4 figures are a breakdown of the budget figures beyond the "level 3" figures published by the Scottish Government. The Government states that level 4 figures set out the disaggregation of budget information below published level 3 programmes where this exists or is available on a systematic basis.

Non-Domestic Rates Income (NDRI)

Non-Domestic Rates are collected by all 32 authorities on the basis of a national poundage rate set by the Scottish Government, paid into a central pool and with effect from 1 April 2012, redistributed to councils based on how much each local authority is expected to collect. The amounts estimated to be available for distribution from the pool each year depends on forecasts of gross rate yield losses from appeals and adjustments from previous years. Adjustments are made, either up or down, to the level of General Revenue Grant to reflect variations between the estimated Non Domestic Rates Income and the actual amount collected, so the amount collected by an individual authority has no direct impact on its revenue funding allocations.

Outturns/Estimated Outturns

Expenditure actually incurred or revenue actually received or estimates made on the basis of actual expenditure revenue to date.

Real Terms Figures

Amounts adjusted for the effect of general price inflation as measured by the GDP market price deflator. Enables comparisons of spending across years without the distortion caused by price changes.

Scottish Consolidated Fund

The account into which payments and receipts to the Scottish Government flow. Most of the receipts are paid into the Fund by the Secretary of State for Scotland and are the monies authorised by the Westminster Parliament to fund the Scottish Assigned Budget. Also includes receipts from charges and other income. The expenditure of the Scottish Parliamentary Corporate Body and its associated bodies, and Audit Scotland, also comes from the Fund.

Spending Review

A Spending Review is a governmental process in the United Kingdom carried out by HM Treasury and subsequently devolved administrations to set firm expenditure limits usually for a period of 3-5 years.

Total Managed Expenditure (TME)

TME is the consolidated sum of *current* and *capital expenditure* of central and local government and public corporations. It is the sum of *DEL* and *AME*. In effect, it is the budget that the Scottish Parliament authorises.