Call for Evidence on the Budget Process Review Group: Interim Report

1. Auditor General for Scotland, Accounts Commission and Audit Scotland
2. Chartered Institute of Taxation | CIOT
3. Comhairle nan Eilean Siar
4. Convention of Scottish Local Authorities | COSLA
5. East Ayrshire Council
6. Economy, Jobs and Fair Work Committee
7. Engender
8. Environment, Climate Change and Land Reform Committee
9. Equalities and Human Rights Committee
10. Fraser of Allander Institute
11. Health and Sport Committee
12. Institute of Chartered Accountants of Scotland | ICAS
13. Jimmy Reid Foundation
14. John Mason, MSP
15. Local Government and Communities Committee
16. NHS Ayrshire and Arran
17. North Ayrshire Council
18. Open Government Partnership
18. Public Audit and Post-legislative Scrutiny Committee
19. Rural Economy and Connectivity Committee
20. Scottish Council for Voluntary Organisations | SCVO
21. Scottish Fiscal Commission
22. Scottish Local Government Partnership | SLGP
23. Social Security Committee
24. SOLACE Scotland and CIPFA
25. Transform Scotland
26. West Lothian Council
Introduction

1. The Auditor General for Scotland, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:
   - The Auditor General for Scotland is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit central government, health and further education bodies and report to Parliament on their financial health and performance.
   - The Accounts Commission for Scotland is an independent public body appointed by ministers to hold local government to account.
   - Audit Scotland provides services to the Auditor General and the Accounts Commission.

2. Public audit provides independent assurance that public money is spent properly and is providing value for money. We carry out this work through the annual audits of public bodies, performance audits on specific themes and subjects, and best value audits of councils and partnerships.

3. The Auditor General, Accounts Commission and Audit Scotland welcome the work of the Budget Process Review Group. We value the opportunity to respond to this consultation.

Overall comments

4. Management of the Scottish public finances is fundamentally changing as a result of new tax and spending powers set out in the Scotland Act 2016 and the accompanying fiscal framework. Scotland’s budget is increasingly complex, and subject to greater uncertainty and volatility than when the block grant from the UK Government was relatively fixed. The new powers give more control over public finances and bring new opportunities and challenges. The Scottish Government and Parliament have more choice over tax and spending, and more decisions to make about how and when to use new borrowing and reserve powers. The performance of the Scottish economy relative to the rest of the UK will have a greater influence on public finances than ever before.

5. We agree that this requires a transformational change to the Scottish Parliament’s existing budget process. This is needed to support both Parliament and Government to operate effectively in a public financial system that has more inherent uncertainty, greater links to the economy and more moving parts. There is also an opportunity for Parliamentary financial scrutiny processes that are world class, reflecting international best practice in a manner appropriate to the Scottish context.

6. Our view is that it is important to move toward a whole cycle approach, extending the thrust of Parliamentary scrutiny from an annual set-piece event focussed around a draft budget toward sustained Parliamentary engagement throughout all stages of the budget cycle: from broad budget strategies, through detailed formulation and approval, to execution and evaluation.
Such an approach, which builds on recent approaches of some Parliamentary committees, is essential if the future timing of the UK budget compresses the time available for scrutiny of the detailed budget figures for the financial year ahead.

7. A more strategic approach to public financial management is also needed. This requires a good understanding of the economic and fiscal context in both Scotland and the UK as a whole. It also means joined-up thinking across different components of the budget - revenues, spending, borrowing and reserves - understanding the manner in which they interact with each other and with economic performance. Finally there will be a need for longer-term thinking and planning, and the development of clear financial strategies and principles for decision making. A critical aspect of this will be balancing the need for short-term flexibility with longer-term direction, clarity and resilience. This will require the Scottish Government to set out its financial analysis and policies, including a medium-term financial strategy, and for the Parliament to scrutinise these effectively.

8. Government policies are delivered through public bodies and in partnership with local government and the third sector. A longer-term approach to finances, looking ahead five to ten years, is also important within each of these organisations. It provides a context for their decisions and creates an overall framework for their own financial decision-making and sustainability. Providing indicative funding levels for three to five years ahead through the budget process would help public sector bodies to update their medium-term planning and strategies.

9. There are some important distinctions between councils and other public bodies in relation to the budget process. Councils, and other local government bodies, have their own democratic mandate and are directly accountable to the public through locally elected members. They are held to account for their spending and performance by the Accounts Commission. Councils also have continuing tax raising, borrowing and reserve powers. The revised budget process needs to reflect these distinctions and fiscal powers, considering the contribution of local government to national priorities while recognising the local policy choices and accountability of individual bodies.

10. Overarching principles of financial sustainability, transparency and accountability should drive the revised budget process. There will be an overriding need to balance the books in the context of greater financial risk and a more complex financial environment. Through the Finance and Constitution Committee, Parliament should have a clear locus on scrutinising the financial sustainability of the devolved public finances. It will also be important that the financial position, prospects and pressures are clearly understood, and for the Parliament to be able to hold Government to account for its overall management of the public finances.

11. Finally, more effective performance planning, reporting and scrutiny would improve clarity over what public spending is aiming to achieve, how this contributes to the Government’s overall purpose and outcomes set out in the National Performance Framework. This would be an important part of a whole-cycle approach, with ongoing scrutiny informing development and consideration of detailed budget proposals. Audit reporting is a key component of this cycle, providing objective information on the public finances, performance and value for money. We agree there is scope for this to be more widely used as part of the Parliament’s financial
scrutiny. Effective coordination and liaison between parliamentary committees will help to ensure a coherent approach to outcomes-based financial scrutiny.

12. We provide more detailed comments on each of these areas and on the specific consultation questions that we consider relevant to our role below. As the Group’s interim report recognises, careful consideration will need to be given to capacity considerations within key organisations including the Scottish Government, Parliament and its committees. Ultimately it will be for the Scottish Parliament and Government to decide how best to balance aspirations for what the process might achieve and the practicalities of implementation. This will need both ambition and realism.

Theme 1: How effective is the existing budget process?

Principles Based Approach

Q1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

13. The FIAG principles of openness and accessibility continue to be relevant, but these and the existing budget process were designed for a spending budget, with limited tax varying powers. Scotland’s budget is now very different as outlined above and the underlying principles need to be developed to reflect this.

14. Ensuring a world class scrutiny process for this new financial environment means looking towards international norms and principles, including those of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), as highlighted in Professor Wehner’s report for the Group. In doing this, it will be important to ensure that the principles underpinning the revised budget process will work in the Scottish context and align with the ‘vision’ of the Parliament and Scottish Government for the process, building on the FIAG principles. Where this means a departure from international best practice, the rationale for this should be clear and convincing.

15. The new budget process should give the Parliament time and space to scrutinise tax as well as spending proposals, and include clear and robust information on the most important issues. Financial sustainability, transparency and accountability should be an integral part of financial scrutiny in Scotland.

16. These changes to the budget are happening alongside continuing financial pressures on public bodies and an ambitious programme of public service reform in areas such as health and social care, education and communities. A clear picture of the public finances, and the prospects and pressures facing them, is more important than ever, to enable the Parliament to hold the Scottish Government to account.

1 Good practice in parliamentary budget scrutiny: international comparisons, Professor Wehner, February 2017.
Full Year Approach

Q2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

17. We are very supportive of a full-year or whole cycle approach to budget scrutiny. Audit Scotland provided the Budget Process Review Group with an illustrative example of such an approach (Exhibit 1). In designing a revised process for the Scottish Parliament there is the potential to combine some of the elements included in this illustration - for example elements of the budget strategy and formulation phases. Some elements do not necessarily need to be undertaken every year or linked to the budget of a particular financial year.

18. It is our strong view that parliamentary scrutiny of budgets and use of resources should happen as part of a continuous cycle, rather than an annual event. This is particularly important where the time available to scrutinise detailed draft budget documents is curtailed as a result of changes to the UK budget timing and a wish to await key information affecting the Scottish budget before detailed proposals are published.

19. A whole cycle approach would provide more space and time for scrutiny of the value for money of budget decisions, with this informing the development and consideration of specific budget proposals. We provide further comments on outcome based scrutiny under theme five.

20. It will be important to integrate evidence-based assessment of equality impacts and considerations throughout all stages of a whole cycle budget approach. This would make an important contribution to mainstreaming equality considerations in Government decision making, given the importance of taxation and resource allocation to this. The issues associated with considering the equality dimension to public policy and resource allocation are illustrative of some of the wider challenges in the budget process– having clear multi-dimensional budgetary impact analysis and evaluation that feeds back into future policy and budget setting. The Draft Budget has been accompanied by an Equality Budget Statement (EBS) for the last eight years. There are opportunities to build on this approach, particularly to widen it consider the equality implications of tax measures alongside spending plans.

21. The Scottish Government has significant discretion over when and how it responds to financial developments throughout the year. For example, Barnett consequentials that arise between the draft budget and the start of the financial year have often been applied in formal budget revisions rather than by adjusting the initial budget bill. We anticipate that the greater level of uncertainty and volatility in the budget will mean the Scottish Government is likely to need to actively manage the overall budget position during a financial year to a greater extent than previously. An effect of this is that, to understand the overall budgetary position in any one financial year, scrutiny is required over each of the components: draft budget and budget bill, budget revision regulations and outturns.
### Exhibit 1

**Whole cycle approach to budget scrutiny**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Formulation</th>
<th>Approval</th>
<th>Execution</th>
<th>Audit &amp; evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>State explicitly the government’s long-term economic and fiscal policy objectives/intentions.</td>
<td>Support debate on the budget aggregates and how they interact with the economy.</td>
<td>Provide a detailed commentary on each revenue and expenditure programme.</td>
<td>Track aggregate spending and revenues.</td>
<td>Confirm robustness of financial reporting and compliance with legislation/regulation.</td>
</tr>
<tr>
<td>Set out expectations and broad financial plans for a number of years ahead (5-7), making link to economic performance and consequences for public finances.</td>
<td>Create appropriate expectations for the budget.</td>
<td>Provide non-financial performance plans, including performance targets.</td>
<td>Determine whether initial budget is in need of review or fine-tuning as a result of economic or other changes.</td>
<td>Provide objective commentary on financial position and performance.</td>
</tr>
<tr>
<td>Assess LT sustainability of public finances.</td>
<td>Show how revenue and expenditure will develop, at least, the two years beyond the next fiscal year.</td>
<td>Make the budget accessible to the public.</td>
<td>Outline performance of budget as executed relative to plan.</td>
<td>Report on significant issues of concern.</td>
</tr>
<tr>
<td>Consider whether those organisations raising and spending public money provide value for money.</td>
<td></td>
<td>Provide Parliamentary authority for expenditure and revenue raising measures.</td>
<td>Cover finance, performance, outputs &amp; outcomes.</td>
<td>Consider whether those organisations raising and spending public money provide value for money.</td>
</tr>
</tbody>
</table>

**Source:** Audit Scotland

### Public Engagement

**Q3.** How effective is current public engagement in the budget process and how can this be improved?

**Q4.** What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

**Q5.** What should be the purpose of public engagement on the Scottish budget?

22. The work of the Accounts Commission and Auditor General regularly highlights the importance of consulting with the public on their priorities and involving communities in funding decisions. This can help to influence where public funds are spent and manage expectations by improving public understanding of the resources available and the need to balance
competing priorities. Strengthening public engagement in the budget process could help build trust in the Parliament and involve the public in holding the Government to account for its spending. Engaging with taxpayers can help the government to make informed decisions about public finances and prioritisation of resources. It can also provide critical evidence on how well public services are performing, to support the Parliament in its scrutiny role.

23. Various innovative approaches to public participation in both budget setting and parliamentary scrutiny have been taken in countries such as Australia, Brazil, Canada, Denmark, Estonia, Finland and Ireland. These have included citizens juries and assemblies, deliberative polls and stakeholder partnerships. Clearly, any of these developments would need to be adapted to reflect the specific context of the Scottish Parliament and what it is trying to achieve. But they provide potential ways in which the Parliament’s commitment to public engagement could be further developed.

24. The International Budget Partnership notes that citizens budgets can be one way of giving the public the information they need to participate as informed stakeholders and hold the government to account for how it manages public money. The Scottish Government published a short guide to Scotland’s public finances alongside the publication of its 2017/18 draft budget. Using helpful infographics, this explained how the budget is funded, what money is spent on and the timeline for new tax and spending powers. The Scottish Government could develop this further as part of a revised budget process to include:

- economic assumptions underlying the budget, such as forecasts of economic growth
- key policy initiatives and the reasons for any significant increases or decreases in revenue or spending
- performance data and medium-term projections of its planned objectives and outcomes, including the anticipated resources needed to deliver them.

25. Moving to a whole cycle approach to budget scrutiny may provide more opportunities, and time, to engage with the public in different ways on the Scottish budget. Such engagement is likely to be more meaningful, informative and influential where it reflects a multi-year perspective and takes place in advance of the formulation of specific spending proposals.

Stage 2 (Draft Budget Scrutiny Phase)

Q6. What should be the core objectives of parliamentary scrutiny of the draft budget?
Q7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?
Q8. How does the new UK Autumn budget process affect the timing of the draft budget?
Q9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

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26. Effective Parliamentary scrutiny is critical to ensure that decisions being taken by government are thoroughly tested and independently reviewed. This improves decision-making and contributes to public trust and confidence in our democratic system of government. As the Scottish Government implements new tax and spending powers, the Parliament’s role in scrutinising its policies, budgets and performance has never been more important. To fulfil this role, the Parliament must get comprehensive, reliable and timely information about the Scottish Government's objectives, plans and progress. This includes comprehensive information about how it intends to use the money available to it, how it was spent and what was achieved as a result.

27. Time is one of the most important dimensions of good Parliamentary scrutiny. The UK Government now plans to publish its budget in autumn each year. We recognise the implications of this for the timing of the Scottish draft budget, as the UK budget determines the size of the block grant to Scotland. As the annual Scottish budget needs to be agreed by Parliament by the start of each financial year, there will need to be a trade-off between clarity over the size of the block grant and time for detailed scrutiny.

28. Given the increased uncertainty inherent in the Scottish budget, whenever detailed proposals are published these will rely on a degree of forecasting and estimation, and there will be a limit to which spending plans might be considered absolutely firm at any stage. Nevertheless we recognise that awaiting the outcome of each year's UK budget has practical benefits. In particular, in providing better information about the immediate effects of Block Grant Adjustments and enabling Scottish Fiscal Commission forecasts to be prepared on a basis consistent with these. Given that this would necessarily curtail the time available for scrutiny of the detailed draft budget, in our view it is essential that any such decision is accompanied by both a year-round whole cycle approach and the introduction of a medium-term financial strategy. We would also note that this may mean a greater availability of formal amendment powers over the budget bill and tax resolutions are appropriate.

29. Clear, transparent and consistent reporting on all parts of the budget cycle is important; from the budget itself to reporting on outturn and performance. This will enable the Parliament and wider public to scrutinise the Scottish Government's decisions in a more complex financial environment. This includes seeing and understanding the basis on which decisions are made and the assumptions underlying changes in revenues and spending from one year to another.

30. We agree with the view of the Group (paragraph 87) that it is important to more clearly separate the objective, factual content of budget proposals from that which is policy driven or political in nature. The introduction of objective standards for financial information included in budget documents would support this. We would suggest that such standards should be prepared by the Finance and Constitution Committee and agreed with the Scottish Government. This might usefully include standard templates for key budget tables.

31. Key features of such standards would include:
   - clarity over key budget aggregates, showing how anticipated spending is funded from anticipated revenues and any use of borrowing and reserve powers
• consistent presentation of revenue and expenditure classifications (for example between RDEL, CDEL, AME and Financial Transactions)
• comprehensive time series information, looking at least two years backward and three to five years forward, linked to the period covered by any spending reviews and medium-term financial strategies
• public data availability based on relevant open government standards.

32. The Auditor General recently reported that the Scottish Government is taking steps to enhance financial reporting to provide a more comprehensive picture of Scotland's public finances, but more work is required. Her report highlighted the importance of providing a clear overall picture of Scotland's public finances. This includes reporting clearly on:
• how anticipated spending is funded from anticipated revenues
• movements in the Scottish block grant arising from the application of the Barnett formula, baseline adjustments and indexation for each element of the block grant
• revenue and spending forecasts, and reconciling these to actual amounts when they are known
• actual spending against budget and the reasons for variations
• the impact of any capital and revenue borrowing, and movements and balances in the Scotland Reserve
• what has been achieved from public spending
• other commitments, guarantees or potential liabilities that may impact on future budgets.

33. The Scottish Government reports this information in a variety of documents including budget documents, audited annual accounts, and economic and performance reports. It is important this information is presented in such a way that is easy to understand and navigate. This provides a basis for ongoing engagement with taxpayers and helps the Parliament to build a comprehensive picture of Scotland’s public finances. This allows the potential consequences of policy choices and decisions on long-term financial sustainability to be better understood.

34. The interim report (paragraph 86) raises the question of whether the increasingly dynamic nature of the Scottish Budget, with greater volatility and uncertainty, means that there is a need for some form of in-year reporting. We anticipate that the Scottish Government is likely to need to actively manage the overall budget position, making decisions during the year about use of the available flexibilities including reserves and potentially resource borrowing, and changes to public spending. It is important, therefore, that there is prompt and transparent reporting of any significant in-year financial management activity, and that the Finance and Constitution Committee has the opportunity to scrutinise this.

35. Such reporting is necessary where there is a significant amendment to or departure from previously published plans, policies or strategies. This would include, for example, where the Scottish Government makes use of resource borrowing powers where this was not previously anticipated in budget documents.

36. There may be value in introducing a mid-year report, whereby any significant changes to plans might be reported. This would include any significant in-year variances in devolved tax revenues or demand-led spending, for example on social security. This might usefully sit alongside existing formal budget revision procedures (particularly the Spring Budget Revision), providing a rounded view of expectations alongside the specific changes to formal budget limits that are proposed. In our view, given the likely costs and benefits, it is not necessary to introduce more frequent (monthly or quarterly) reporting during the year alongside existing updates on devolved tax collection.

37. A thorough understanding of how much money has been committed across government to long-term investment such as borrowing, public private partnerships and public sector pensions is important when taking decisions about future tax and spending. It is also important to have a good awareness of the financial implications of wider policy commitments (such as those in health and social care) and the full range of other potential financial commitments which depend on events in the future, such as contingent clinical negligence claims. This needs to be set within the context of what the Scottish public sector owns, that is assets acquired from taxes. Taken together, such information would help provide a more complete understanding of the Scottish public finances.

38. In evidence to the Finance and Constitution Committee in November 2016, the Auditor General highlighted areas for continued development, including:

- the draft budget and materials to support in-year budget revisions, so that these show how the key components of the budget have been established and how planned expenditure is expected to be funded overall
- the suite of annual accounts that contain detailed outturn information on the different components of the budget, so that the information provided is set in the context of the budget as a whole, and the overall position is clear
- accompanying performance reporting, so that it is clearer what spending is aiming to achieve and how this contributes to the Government's overall purpose and specific outputs and outcomes
- consolidated accounts for the whole of the Scottish public sector.

Stage 3 (Budget Bill Phase)

| Q10. How effective is the existing Budget Bill process and what, if any, changes are required? |
| Q11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage? |
| Q12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments? |

5 Written submission from the Auditor General for Scotland on Scotland's fiscal framework, Finance and Constitution Committee, November 2016.
In revising the budget setting and scrutiny process it will be important to agree the ‘vision’ for the process. This needs to be a decision reached between the Parliament and the Scottish Government and it needs to be one that works in the Scottish context. This will then inform the mechanics of how it will work in practice, such as the legislation required and details of parliamentary procedure. The nature and extent of amendment powers will be a key feature of this. Any changes to these should be considered alongside the virement powers available to the Government, which determine the flexibility it has to depart from the established budget without formal amendment.

As highlighted above, budget documents should include as much information to provide a full understanding of the overall financial position. Whatever the legislative process for approving the draft budget, it is important that it allows for consideration of revenues and spending together, within the context of longer-term financial commitments.

The existing Budget Bill process is based on there being a significant degree of up-front scrutiny. We would note that where the opportunity for scrutiny of a detailed draft budget or other budget review is curtailed this may mean a greater availability of formal amendment powers over the budget bill and tax resolutions is appropriate.

**Theme 2: What is the impact of the Fiscal Framework?**

**Q13.** What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve.

**Q14.** How should parliamentary scrutiny of these new aspects to the budget process operate? For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

The fiscal framework sets out agreed rules and limits within which the Scottish Government will manage its finances and the related economic and funding risks. They include rules for block grant adjustments, reconciliations, annual and overall limits for borrowing and the Scotland Reserve. Working within this framework, the Scottish Government will need to make choices on how it uses its new tax and spending powers and its fiscal policies more generally. Decisions will need to be made based on a good understanding of the consequences for future years and how these sit alongside existing commitments, ensuring the financial sustainability of Scotland’s public finances over time. It will be important that these decisions, and the policies and assumptions underpinning them, are clearly articulated in a way that enables effective Parliamentary scrutiny.
43. Decisions about the use of the provisions in the fiscal framework will affect the extent to which they are available in subsequent years and impact on other aspects of the budget, such as the need to accommodate borrowing repayments. It will be critical for the Scottish Government to provide clear information on how all parts of the fiscal framework operate in practice, and for this to be scrutinised as part of the budget process.

44. The operation of the fiscal framework is now an essential component of the Scottish budget and, as such, will need to be integrated into the revised budget and scrutiny process throughout the budget cycle. In doing so, the following issues should be considered:

- The fiscal framework is complex and includes a number of separate but interrelated elements, such as block grant adjustments and reconciliations. For a full understanding of their impact on the Scottish budget, all the components should be considered together.
- The volatility of tax revenues and social security spending means there is likely to be variance between actuals and forecasts. This increases the importance of in-year monitoring and reporting, more detailed explanations of differences between budgets and outturns, and clear explanations of reconciliations.
- Access to data to support in-year monitoring, reporting and scrutiny relies on a number of organisations across the UK working together and sharing information. This includes the Scottish and UK Governments, Scottish Fiscal Commission, Revenue Scotland and HM Revenue and Customs. The availability and timing of the data needed to support effective scrutiny of the fiscal framework will need to be factored into any new process.

45. Effective scrutiny of the operation of the fiscal framework will require an understanding of how the provisions in the fiscal framework are being managed. This will involve looking across the different components - revenues, spending, borrowing and reserves - and understanding how they interact with each other and with economic performance. It will also require clarity over the policies, principles and parameters that the Scottish Government is working to. For example:

- under what conditions the Scottish Government will use capital and revenue borrowing
- how the Scottish Government will demonstrate decisions are affordable and sustainable
- what processes the Scottish Government will put in place to assess and respond to forecasting errors or a Scotland-specific 'economic shock'
- how the Scottish Government will report borrowing and use of its reserve against the limits set in the fiscal framework
- any additional limits or targets, other than those in the fiscal framework, the Scottish Government puts in place to ensure there is scope to deal with unexpected economic events.

46. The Scottish Government may set out its plans for some of these areas in advance, for example the anticipated level of capital borrowing. In others, most notably in relation to resource borrowing, the provisions may be utilised largely in response to conditions that arise during the year.

Theme 3: How effective is the current approach to Multi-Year Budgeting?

**Q15.** What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

**Q16.** What level of information should the Scottish Government publish?

**Q17.** What should be the role of the parliament’s committees in scrutinising Spending Reviews?

47. Spending reviews are a way for the Scottish Government to consider and set out publicly its public spending priorities and plans for a number of years ahead. This is an important component of a whole cycle and longer-term budgeting approach. Spending reviews should include details of what the Scottish Government aims to achieve with the money it expects to have available, and how it will achieve best value for money of public expenditure. This includes any planned savings or reductions in funding. Although setting out these issues is always important, it is particularly helpful to clarify them when working within financial pressures.

48. In future, spending reviews will need to be conducted in the context of forecast tax revenues and demand-led social security payments, given the impact on spending plans. These new features of Scottish public financial management introduce an underlying uncertainty to multi-year budgeting. To support effective scrutiny of spending reviews, by parliamentary subject committees and the public, the Scottish Government should outline the extent of this uncertainty and what that might mean for the overall financial position and its spending plans. This includes setting out forecasts, projections and models and the assumptions underpinning them.

49. Government policies are delivered through public bodies and in partnership with local government and the third sector. Multi-year budgeting helps these organisations to plan better over the longer-term (five to ten years). A longer-term approach to finances is also important within each of them. It provides a context for their decisions and creates an overall framework for their own financial decision-making and sustainability. While the absence of indicative funding should not prevent organisations projecting future income, and planning accordingly, providing this for three to five years ahead through the budget process would help them to update their medium-term planning and strategies. This would also support a better understanding of public financial management and sustainability across the public sector.

50. There is scope to develop spending reviews to focus more on the outcomes the Scottish Government is aiming to achieve through its spend. This is explored more under theme five.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

**Q18.** Should the Scottish Government publish a medium term financial strategy?

**Q19.** If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?
51. The new financial powers require a more strategic approach to public financial management and reporting. This should include an overarching, medium-term financial strategy underpinned by clear policies and principles for managing the public finances. A longer term approach would support decision-making and financial sustainability.

52. Exhibit 2 sets out the main components of strategic financial management. The Scottish Government should publish a medium-term financial strategy for Parliamentary and wider public scrutiny. This should set out the expectations and broad financial plans/projections for the next five years. It should make the link to anticipated economic performance and the consequences for the block grant, and devolved and assigned revenue and spending. It should also be underpinned by clear policies and principles for using, managing and controlling the available powers. Scenario planning based on economic forecasts and financial information will be increasingly important in assessing the range of potential impacts on the Scottish budget and in turn aid financial planning, management and decision making.

53. Potential components of a medium-term financial strategy are set out in the Budget Process Review Group’s interim report (at paragraph 167). We would support the inclusion of this information, including projected levels of revenues and funding, indicative spending and investment levels, and anticipated borrowing and reserves.

54. Making the medium-term financial strategy and any related policies, principles and underpinning assumptions publicly available will enhance financial transparency. Publishing medium and longer-term models, projections and plans will provide the Parliament, public bodies, councils and the wider public with the information they need to have a fuller understanding of the overall financial position. More clarity about overall financial expectations and plans would in turn encourage improved financial planning by public bodies.

55. A medium-term financial strategy is by its nature based on forecasts, projections and estimates. These will need to be as soundly based and unbiased as possible, but will always be subject to inherent uncertainty. In setting out central financial forecasts and projections it will be important to outline the extent of this uncertainty and what that might mean for the overall financial position. This might usefully include:

- scenario planning, assessing a range of potential impacts on the Scottish budget
- relevant technical information about statistical forecasts that have been prepared and used, such as confidence levels and assessments of historical forecasting errors
- sensitivity analysis covering the main variables used in forecasts, estimates and projections.
56. Publication and Parliamentary scrutiny of a medium-term financial strategy and associated material would be an important component of a whole cycle approach to the budget. Publishing this well before a more detailed draft budget would enable consideration of the overall picture and the fiscal context prior to scrutiny of detailed budget proposals, which would be set within the framework of the overall strategy.

57. In determining the period covered by a medium-term financial strategy and the timing of its preparation and scrutiny, it will be important to balance a range of considerations including the following:

- The robustness of the forecasts, projections and estimates that underpin a financial strategy. Generally, the later a strategy is prepared the better such information is likely to be. But given the underlying volatility and complexity to which the Scottish budget is now exposed there will always be a significant degree of uncertainty inherent in annual budgets and any medium-term financial plans. Such information should be fit for purpose, but its underlying nature should be clearly understood.

- The extent to which observed or anticipated changes in economic or fiscal conditions, including the fiscal policy and spending decisions of the UK Government, potentially require a significant revision to the financial strategy. In general, where significant changes to underlying economic and fiscal conditions are experienced, it is likely to be
necessary to review and revise any financial strategy more frequently. This will be less important where the underlying conditions are more stable.

- The extent to which the Scottish Government makes changes to its underlying fiscal policies. This is particularly pertinent immediately following a Parliamentary election as a new government is established and there is potentially a change of political administration. But it may also be the case that fiscal policies are reviewed and revised substantially during a Parliamentary session for other reasons. Generally any significant change can be expected to lead to a revised financial strategy being published.

58. In evidence to the Finance and Constitution Committee in November 2016, the Auditor General provided her view that a medium-term financial strategy would not be set in stone for the next five years. She noted that it could be refreshed and updated in response to circumstances during the life of the parliamentary session and used to inform annual budgets. ⁷

59. The Scottish Fiscal Commission (SFC) will pay a key role in the provision of economic and fiscal forecasts, covering Scottish onshore GDP, Scottish tax revenues and social security spending. It is also required to undertake and publish assessments of the reasonableness of the Scottish Ministers’ projections as to their borrowing requirements. The SFC has discretionary powers to prepare further forecasts, assumptions or projections of other funding or revenues contributing to the Scottish budget and to report these publicly. It also has the power to assess such forecasts, assumptions or projections where these are prepared by the Scottish Government.

60. The SFC will therefore have a critical role in providing information to enable the preparation of a medium-term financial strategy, by providing forecasts and assessing the reasonableness of Scottish Government projections. Its work will help to support the assessment of revenues and funding available over the medium term, and social security spending as this comes on stream. The SFC is required to prepare a number of forecasts for a five-year ahead period but has discretionary powers to widen its contribution, both to other areas of funding and to cover longer periods.

61. A key issue to consider, if a medium-term financial strategy is prepared, is how the timing of this sits with the preparation of forecasts by the SFC. The SFC is required to prepare forecasts twice a year, and it was previously envisaged that this would be at draft annual budget stage and to support any revision necessary for the annual budget bill. If a financial strategy were to be prepared outwith these times, then either the most recent SFC forecasts would need to be used or the timing of their preparation realigned.

62. The SFC is required to base its forecasts, assumptions and projections on the current policies of the Scottish Government and may not consider what the effect of an alternative policy would be. This approach is similar to the way in which the OBR operates. This makes it important that fiscal and other relevant policies are clearly understood and transparently

stated. This is likely to be important for both the work of the SFC and to support Parliamentary scrutiny.

63. A key issue will be assessing and keeping under review the long-term sustainability of the Scottish public finances, considering the long-term implications of policy decisions, the extent of financial commitments and anticipated changes in the economy, revenues and spending. The independent economic and tax revenue forecasts that will be prepared by the SFC will contribute to such an approach. Audit Scotland’s response to the Scottish Government’s consultation on the draft Scottish Fiscal Commission (Modification of Functions) Regulations 2017 highlighted that extending the functions of the Scottish Fiscal Commission to include a duty or ability to examine and report on the sustainability of the Scottish public finances would help demonstrate the objectivity of any such assessment.  

64. In our view it is important that such an assessment is undertaken and published. It could be integral to or published alongside the Scottish Government’s medium-term financial strategy or could be prepared on a standalone basis. We would suggest that there is a critical role for the Parliament’s Finance and Constitution Committee in scrutinising the financial sustainability of the Scottish public finances, and this should be formalised. The Scottish Government and the SFC would each have a role in providing the information necessary to support such scrutiny.

Theme 5: How effective is the current approach to outcomes-based scrutiny?

Q20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?

Q21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

65. The Scottish Government’s National Performance Framework (NPF) sets out the purpose, objectives and national outcomes that it aims to achieve, and indicators that track progress towards these outcomes. The Community Empowerment (Scotland) Act 2015 ensures that the current outcomes approach to government will continue in the longer term. The Scottish Government continues to refine the NPF, which provides a firm basis for its outcomes-based approach to policies. This approach has implications for the way in which the Parliament exercises its budget scrutiny role. The move to a more outcomes-based approach to budgeting and service delivery should be reflected in a greater focus on scrutinising what is being achieved from public spending. This includes how spending is contributing to the Scottish Government’s overall purpose and specific output and outcome measures.

66. An outcomes-based approach to scrutiny will require a clearer focus across parliamentary committees on ‘big picture’ strategic issues that will outlast any single parliamentary session. This is essential if the Parliament is to effectively hold the Scottish Government to account for the delivery of its long-term ambitions. For example, addressing inequality of outcomes,

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8 Response to consultation on the draft Scottish Fiscal Commission (Modification of Functions) Regulations 2017.
delivering more sustainable public services, improving health and social care services and addressing climate change.

67. The committees of the Parliament are increasingly working together to promote a coordinated and joined-up approach to significant cross-cutting issues. But the volume of business that committees are dealing with can affect their ability to deal with more complex, longer-term issues. There is an opportunity to develop greater coordination of budget scrutiny while respecting the particular areas of focus pursued by each committee.

68. Public bodies and councils have a key role in delivering government policy and priorities, with their funding being a key aspect of the budget process. There are expectations that they contribute to the Government’s outcomes and the measures set out in the NPF. Through their own plans and annual reports they have a responsibility to articulate the contribution that they are making. This should be a key aspect of the scrutiny undertaken by Parliamentary committees, as part of a whole cycle approach.

69. It is important to recognise the distinction in accountability arrangements between local government and other public bodies in considering this area. Councils and other local government bodies have their own democratic mandate, and are directly accountable to the public through locally elected members. Councils also have separate tax raising, borrowing and reserve powers. They are held to account for their spending and performance by the Accounts Commission.

70. Local government bodies establish their own local priorities but also make a critical contribution to the Scottish Government's outcomes. The requirement for this is being strengthened through partnership working arrangements, such as the introduction of integrated health and social care bodies. The revised budget process needs to reflect these distinctions, considering the contribution of local government to national priorities while recognising the legitimacy of local policy choices and statutory accountability of individual bodies.

Performance and Reporting

Q22. What information should the Scottish Government provide in its budget documents to show the links between its budget allocations and the NPF?

Q23. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

Q24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

71. More effective performance planning and reporting would improve clarity over what spending is aiming to achieve, how this contributes to the Government’s overall purpose and outcomes, and what is being achieved. This should sit alongside formal budget documentation.

72. The Scottish Government expects all public bodies and councils to align their own objectives and spending plans with the NPF. The boards of public bodies, local councillors, the Scottish
Government and subject committees in the Scottish Parliament all play an important role in scrutinising the outcomes delivered by public bodies. It is important that public bodies are held to account for the value for money they are providing.

73. A common theme in our performance audit reports is the potential for greater alignment of resources and actions, including those of public organisations, to the NPF. The NPF measures overall progress towards economic targets and outcomes but it does not measure the specific contribution of policies and initiatives to delivering these outcomes. Our work has found that policy implementation plans often lack indicators or measures to monitor progress towards improving long-term outcomes. There is a role for government in setting out performance plans up front, including milestones and indicators of planned progress, and reporting annually against these.

74. The primary responsibility for reporting on the outcomes delivered by public bodies and councils rests with the bodies themselves. Many of which are either subject to statutory public performance reporting obligations (including those contained in the Community Empowerment Act) or are required to participate in national performance reporting frameworks such as Scotland Performs. The Accounts Commission and Auditor General have highlighted the need for public bodies to improve the quality of their performance reporting.

75. The Auditor General for Scotland has reported that a more rounded account of the Scottish Government’s overall performance would enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny. A key challenge in managing performance is aligning financial and performance information in a meaningful way, so that the impact of spending decisions on performance and outcomes can be better understood. More strategic alignment between spend and outcomes is important at both a national level and for individual bodies.

76. The Accounts Commission and Auditor General have reported that the way in which public bodies report performance, and are held to account, does not always reflect the Scottish Government’s policy of promoting outcomes. They recommended that the Scottish Government should streamline national performance management frameworks and create a better balance between short-term measures of individual service performance and the delivery of longer-term local outcomes through effective partnership working.

77. The Scottish Government published an update setting out how it is performing against national outcomes and performance indicators, alongside its 2017/18 draft budget. Outcomes are often, by their nature, longer term. There are opportunities for budget documents to make more systematic use of output measures that describe in more specific terms progress towards desired outcomes. These are more able to be aligned to specific budgets and help support scrutiny of budget proposals for the year ahead. This should not be restricted to the draft budget, but can be reported in various ways throughout the whole year.

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budget cycle. Public audit has an important role in objectively and transparently reporting on progress towards outcomes.

78. Much of the focus of budget transparency and scrutiny is on the Scottish Government’s plans for public spending and revenue raising. Equally important is what has actually been spent and raised, and what it has achieved in practice. Increased volatility and uncertainty mean that a clear understanding of annual outturns and the overall financial position has never been more important. This helps Parliament to hold government to account for what has been achieved through taxation and spending, and helps inform future budgets and plans. This is a key aspect of a whole cycle approach to budget scrutiny.

79. There is a well-developed approach to outturn reporting through the published accounts of individual public bodies, councils and the Scottish Government’s consolidated accounts. The receipts and payments flowing through the Scottish Consolidated Fund are also reported in published accounts. Revenue Scotland publishes devolved tax accounts and HM Revenue and Customs accounts will report on Scottish income tax revenues. This system of annual financial reporting reflects the individual accountabilities of all those organisations involved in spending and raising public money. A key issue is reporting clearly on the overall financial performance and position each year and how each of these individual accounts fit together. This is needed to support Parliamentary scrutiny of the Scottish public finances overall.

80. The Scottish Government is further developing its financial reporting in the context of the new powers, building on existing outturn reporting arrangements and addressing the commitments it has made in this area. Its plans for improvements to financial reporting include the following important components:
   - information explaining how the Scottish public finances now work
   - outturn statements providing high-level information on actual spend across the Scottish Administration as a whole
   - tailored for Scotland consolidated accounts that show a more aggregated picture of the Scottish public finances – including what is owned and owed alongside spending and revenues.

81. The budget process that is developed should give sufficient prominence to outturn information as part of a whole cycle approach. This should include opportunities for scrutiny of the overall picture and of the individual elements of most significance or Parliamentary interest. Reporting by the Auditor General and the work of the Public Audit and Post-legislative Scrutiny Committee will remain an important avenue for this. The Finance and Constitution committee is also well placed to lead scrutiny of the overall position.

82. The annual provisional outturn statement by the Cabinet Secretary for Finance is an important aspect of the current arrangements, providing an opportunity for scrutiny currently in June each year. It is important that this statement and supporting material is clearly presented in a manner that is consistent with other budget documentation, and meets any standards that are established (see theme one).
Public Audit

Q25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

83. Public audit in Scotland is informed by the priorities of the Auditor General and the Accounts Commission and delivered by Audit Scotland on their behalf. *Public Audit in Scotland* sets out the shape, principles and themes of public audit.\(^\text{12}\) We are committed to supporting the Parliament in developing world-class arrangements for holding government to account and improving the use of public money.

84. The independence of the Auditor General, Accounts Commission and Audit Scotland is essential. Audit should not have a role in budget setting or any involvement in policy decisions. There is an important role for audit in reporting independently and informing and supporting Parliament’s responsibilities for the oversight of the public finances. This helps create a strong and effective system of accountability and transparency which supports the best use of public money in the public interest.

85. Audit reporting is a key component of the budget cycle, providing objective information and independent assessment on the public finances, performance and value for money. Auditor General reports are considered by the Public Audit and Post-legislative Scrutiny Committee in the first instance. There are opportunities for the subject committees to make more use of Auditor General and Accounts Commission reports. There is an ongoing programme of work that can be drawn from at different stages of the budget cycle to support scrutiny by subject committees. Effective coordination and liaison between the Public Audit and Post-legislative Scrutiny Committee and subject committees will help to ensure a coherent approach to outcomes-based financial scrutiny.

86. There is scope for the Parliament to strengthen its focus on the extent to which policy outcomes are being delivered in the most efficient manner possible. Parliamentary committees can take a more strategic approach to scrutinising spending within and across key policy areas, by examining how it is being used to deliver agreed policy outcomes. For example, by tracking how major policy commitments are being implemented across government. We are keen to ensure that our audit work supports Parliamentary committees in this way.

87. We place a particular emphasis on the execution and evaluation of policy and the extent to which public resources are being used to best effect. Much of our audit work looks at the effectiveness of implementation of key government policies and the impact of significant programmes of public service reform. A key priority for our work is ensuring that public money is being used to best effect to support the delivery of improved outcomes. This includes reporting on the progress that is being made in improving the quality of public performance reporting across the public sector. In particular, how improved outcomes are linked to the use of increasingly scarce public resources.

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We hope that you find our comments helpful. We would be happy to expand on any points contained within our submission if you would find that useful. In the meantime, should you require any further information please contact Mark Taylor, Assistant Director, at mtaylor@audit-scotland.gov.uk.

April 2017
Written Response from The Chartered Institute of Taxation

1 Introduction

1.1 This is a response by the Chartered Institute of Taxation (CIOT) to the Interim Report of the Budget Process Review Group, published for consultation in March 2017. We welcome the opportunity to offer our comments.

1.2 The Finance and Constitution Committee of the Scottish Parliament established the Budget Process Review Group for the purpose of carrying out a fundamental review of budgetary scrutiny. The key reason behind the review is to ensure that the budget process accommodates the Scottish Parliament’s new financial powers as well as the operation of the Fiscal Framework. As a result of both the Scotland Act 2012 and the Scotland Act 2016, the Scottish Parliament now has powers to both raise and allocate revenue, where previously the Scottish budget was mainly concerned with expenditure.

1.3 As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

1.4 Our stated objectives for the tax system include:
- A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

1.5 Our area of expertise is taxation; as such we have not commented on the themes or responded to the questions outwith our remit, and our response is necessarily focussed on the revenue-raising element of the budget process.

2 Executive summary

2.1 We welcome the consultative approach adopted and the fact that this consultation is intended to be a starting point for discussions between the Scottish Government, the Scottish Parliament, Audit Scotland and other bodies and civic Scotland, with the aim of developing an effective budgetary scrutiny process.
2.2 In May 2016, the CIOT launched a joint project with the Institute for Government (IfG) and the Institute for Fiscal Studies (IFS) to look at how to improve the process around UK budgets and tax policy-making.\(^1\) In our experience, key elements in making good tax policy are an open, consultative process involving all affected stakeholders and effective scrutiny. The authors of the report undertook research, by carrying out interviews, receiving written submissions and holding roundtables, one of which was held in Edinburgh, involving tax policy specialists from Scotland. The outcome from the project was a report published in January 2017, ‘Better Budgets: making tax policy better’.\(^2\) Although some of the recommendations are inevitably specific to the UK budget and tax policy-making process, others have relevance to Scotland and we would invite the Budget Process Review Group to take the report into consideration as part of their work. For example, the report contains ideas about how to engage the public and improve scrutiny, both by parliament and the public.

2.3 Key aims should be for the budget process to be transparent and for budgetary scrutiny to be robust and effective with the objective of ensuring Scottish Government accountability for budget decisions. In addition, it is important that there is better public debate in relation to the budget. This will help to ensure informed decisions by politicians and hopefully result in better public understanding and support.

2.4 When developing aims and principles for the budget process, there needs to be recognition of the constraints on tax-raising powers. In particular, there are currently only two fully-devolved taxes (Land and Buildings Transaction Tax and Scottish Landfill Tax), which account for a relatively small proportion of tax revenues; Air Departure Tax is to be devolved with effect from April 2018. ‘Scottish income tax’ will provide a significant proportion of tax revenues, but the powers relate only to the setting of rates and bands for 2017/18 onwards, and apply only to the non-savings and non-dividend income of Scottish taxpayers. Therefore the interdependence between the Scottish and UK budget processes necessarily remains high, because Scotland continues to rely on the block grant from the UK for around half of its funding.

3 Theme 1: How effective is the existing budget process?

3.1 We understand that there are concerns that the existing budget process is not as transparent as it might be, and that the scrutiny performed by the Scottish Parliament could be more robust. This is partly because of the use of pre-legislative consultation and dialogue between the Scottish Government and other parties leading to amendments in the draft budget, rather than


amendments coming from parliamentary committees or the Scottish Parliament. Moreover, the decision to delay the publication of the draft budget until after the UK Government’s autumn statement has reduced the time available for parliamentary scrutiny.

3.2 The overall effectiveness of the budget process might be improved if the Scottish Government were to set out clear statements, perhaps near the start of a new parliament, of what they are trying to achieve during the course of the parliamentary term. This might assist parliamentary scrutiny, post-legislative review and might also improve public engagement and debate.

**Principles Based Approach**

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

3.3 Given the existing Financial Issues Advisory Group (FIAG) principles relate to a budget process designed for a mainly expenditure budget, it may be appropriate to review them in the light of the budget now dealing with both raising and allocating revenue. A review could undertake to ensure the principles are in line with international principles, where relevant.

3.4 We think the principles should include reference to fiscal reports, forecasts and risk analysis with a view to ensuring transparency in the budget and its scrutiny, as set out in the International Monetary Fund’s (IMF) Fiscal Transparency Code.\(^3\) The current FIAG principles make no explicit reference to transparency, but it is essential that the budgetary scrutiny process is transparent in order for it to be effective and robust. So for example, as set out in the Organisation for Economic Co-operation and Development (OECD) principles, budget documents and data should be open, transparent and accessible.\(^4\)

**Full Year Approach**

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

3.5 We think that a full-year approach to budget scrutiny should be pursued.

3.6 There are possible challenges, especially initially, in that there may not be the necessary capacity, skills or experience within the Scottish Parliament. Conversely, by taking a full-year approach, it may be possible to spread the burden of work. It should also assist in supporting a multi-year or long-term approach, and may assist in ensuring that the Scottish budget process is not adversely affected by the change to an autumn budget by the UK Government. It would allow the Scottish draft budget to follow the UK budget, with some scrutiny taking place prior to the budget and feeding into the budget process.

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3.7 A full year approach would also allow post-budget and post-legislative scrutiny and evaluation to take place, which would assist in holding government to account for the effects of their revenue-raising and spending decisions. The purpose of this would be to work out what is working well and what is not working well, thus informing future decisions. It would also hold ministers and officials to account for the quality of decisions and implementation of those decisions.

Public Engagement

3. How effective is current public engagement in the budget process and how can this be improved?
4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?
5. What should be the purpose of public engagement on the Scottish Budget?

3.8 According to paragraph 36 of the Interim Report, during scrutiny of the draft budget 2017/18, a public engagement initiative resulted in 24 eligible questions being submitted via social media. 3,400 views of the evidence session on social media were recorded. These appear to be relatively low numbers, but this could be viewed as an initial trial, so it would be informative to see how (and whether) numbers improve in the future. However, it is important to remember that social media is a selective means of gaining views, since those who share views on social media platforms tend to be self-selecting. Therefore, in addition to making use of the Scottish Parliament’s social media channels to engage with the public, other methods of engagement could be used, such as surveys and public meetings.

3.9 While providing a variety of channels is obviously necessary in order to facilitate public engagement in the budget process, it is also essential to ensure that the information provided to the public is clear, informative and transparent. The current draft budget document is confusing and complex, and therefore discourages and even prevents public engagement. Improvements in presentation and clarity, such as those suggested by the Fraser of Allander Institute, would encourage and enable public engagement.

3.10 In relation to tax specifically, the quality of public understanding and engagement with the tax system is quite low. This is probably also true of other aspects of the draft budget. This makes it difficult to have a sensible public debate about possible options. Given the current low level of understanding, one approach is to use simplified surveys to engage the wider public alongside more detailed and technical traditional consultation papers, as exemplified by HMRC’s Making Tax Digital survey, which covered in brief the six Making Tax Digital consultations, and received over 1,200 responses.5

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5 Those using social media may also give vent to more extreme views, according to research: https://journalistresource.org/studies/society/social-media/facebook-political-polarization-data-science-research
6 https://fraserofallander.org/2017/01/18/6-reforms-for-the-scottish-budget-process/
3.11 As noted in the joint CIOT-IFS-IfG report, PwC used a ‘citizens’ jury’ approach to consult with the general public about tax in 2014. This helped the jurors to understand the trade-offs involved in tax decisions as well as the political barriers to change. This jury involved only 22 people, however, so such an approach is impractical if the aim is to reach more than a handful of individuals.

3.12 Another method of increasing public awareness, understanding and engagement with the draft budget would be to make use of external reviews. These involve outsiders in helping to think through possible options and they typically result in greater public engagement, thus improving the public debate.

Stage 2 (Draft Budget Scrutiny Phase)
6. What should be the core objectives of parliamentary scrutiny of the draft budget?
7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?
8. How does the new UK Autumn budget process affect the timing of the Draft Budget?
9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

3.13 The aims of parliamentary scrutiny of the draft budget should include holding the Scottish Government to account with regards to its decisions, ensuring the budget is fiscally sound, checking that the plans therein are implemented effectively, making the budget plans transparent and giving the public the opportunity to comment.

3.14 Given the increasing powers over revenue-raising, it might be appropriate for there to be a new parliamentary committee, with the responsibility for scrutiny of taxation legislation generally and also the revenue-raising aspects of the draft budget. Regardless of whether or not this suggestion is followed-up, given the significant role for parliamentary committees in the Scottish parliamentary system (in part due to the unicameral nature of the Parliament), it might be helpful if there were fewer committees. These could then be larger and MSPs could sit on one committee only, which might assist them to build up knowledge and expertise in their committee area.

3.15 Given most of the budget concerns spending, it might also improve scrutiny and transparency if the Scottish Government were to indicate its financial priorities for the year ahead earlier in the budget process.

3.16 The new UK autumn budget process, to commence from autumn 2017, together with the increase in devolved responsibilities, mean that it is preferable from the point of view of certainty, for the Scottish Government to delay the Scottish draft budget until after the UK budget. This is because the UK budget will provide up-to-date figures in respect of the block grant and the

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8 Chapter 3.7, page 41, [https://www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better](https://www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better)
9 [http://www.pwc.co.uk/issues/futuretax/june-2014-the-people-decide.html](http://www.pwc.co.uk/issues/futuretax/june-2014-the-people-decide.html)
block grant adjustments, which will affect the Scottish draft budget. The delay, however, reduces the time for scrutiny of the Scottish draft budget. If the Scottish Government were to publish the draft budget prior to the UK budget, it would be subject to significant uncertainty. So although there would in theory be more time for parliamentary scrutiny, this might be hindered by the lack of certainty surrounding the draft budget.

3.17 The budget documents are aimed both at the general public and Members of the Scottish Parliament (MSPs). In terms of improving the transparency of draft budget documents, it would be helpful to try to separate out objective content and political content. We acknowledge that this may be difficult in practice, particularly as ingrained biases and group-think can mean that a group of fairly like-minded individuals might perceive something as objective when in fact it is political, or at least subjective. It may also be worth considering separating out a simple, clear report for the general public from detailed financial and statistical content. In respect of this issue, also see paragraph 3.9 above.

3.18 Where numbers are published, there should be a consistent approach and comparatives to prior years; if the method of presentation changes or differs within or between documents, there need to be clear explanations and reconciliations. In addition, figures should be presented such that they are easy to understand and follow. By way of example, the arithmetic of the first table in the draft budget for 2017/18 is extremely difficult to follow. Inter-relationships between different analyses of figures should be explained clearly. It would also be helpful to include an explanation of the relationship with and interaction between UK expenditure and that of the Scottish Government. Alongside tables, use should also be made of pictorial representations of numbers, such as bar charts, pie charts and graphs. Some people are 'numbers-blind' and may be better able to understand data if represented graphically rather than in tabulated form.

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

3.19 It is not ideal that timetable considerations generally mean the three Budget Bill stages have to take place in three consecutive business weeks. This further reduces the opportunity for effective consideration and scrutiny.

3.20 The Parliament should have the opportunity to lodge amendments to the Budget Bill. The current process means that the wording of the Bill may never receive direct parliamentary scrutiny. In addition, since the process lacks scrutiny by a body independent of the Parliament, there is little likelihood of

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different views or second opinions being expressed. Stage 2 and stage 3 scrutiny is effectively carried out by the same MSPs in a relatively short space of time.

3.21 While the Budget Bill is considered to be the final stage in the current budget process, preceded by opportunities for pre-legislative discussions, committee reports and parliamentary debates, the shortened timescale imposed on the pre-legislative phases in recent years (due to waiting until after the UK autumn statement), means that the preceding stages have not allowed for as effective scrutiny as would have been hoped for when the budget process was originally designed.

3.22 In terms of tax changes, particularly in relation to rates and bands, it is noticeable that Scotland does not have an annual Finance Bill. The addition of an annual Finance Bill would provide a practical avenue for effecting such annual changes, and also might allow for more scrutiny of them.11

4 Theme 2: What is the impact of the Fiscal Framework?

4.1 The Fiscal Framework is complex, meaning that transparency may be difficult to achieve.

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

4.2 To improve transparency around tax decisions and their effects, estimates and forecasts of costs or revenues of tax decisions should be published. In terms of devolved tax revenues, the performance should be published, including comparatives with the UK equivalent and with original forecasts and estimates. Explanations of divergences should be included. The data and methodologies used to produce forecasts should also be published.

4.3 Similarly, we would expect the publication of the methods used to calculate

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11 Examples of annual changes are: confirming business rates, setting income tax rates and bands, setting / changing rates and bands for the devolved taxes (land and buildings transaction tax, Scottish landfill tax, and from 1 April 2018 air departure tax).
block grant adjustments, together with the data used within them and explanations of that data.

4.4 It would also be helpful if there was more up-to-date information concerning Scottish taxpayers, both in terms of numbers and income levels, and incoming and outgoing Scottish taxpayers.

4.5 As noted above, (paragraph 3.14), the additional powers of the Scottish Parliament may mean that it is appropriate for there to be an additional committee, with a taxation remit. If such a committee existed, it might be possible for that committee to undertake scrutiny of the operation of the Fiscal Framework.

5 Acknowledgement of submission

5.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

6 The Chartered Institute of Taxation

6.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT’s comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT’s 18,000 members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

The Chartered Institute of Taxation
2 May 2017
Written Response from Comhairle nan Eilean Siar

Theme 1: How effective is the existing budget process?

*Principles Based Approach*

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

   The principles could be strengthened by adopting a multi-year approach that focuses on outcomes and is evidence based.

   The Comhairle, and other public bodies, could plan better for the delivery of services if medium and long term plans set out the policy and funding objectives of the government.

*Full Year Approach*

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

   Scrutiny should be an ongoing process rather than an annual event.

*Public Engagement*
3. How effective is current public engagement in the budget process and how can this be improved?

At a local level there is no direct engagement on the national budget. The time available for consideration of the budget by Parliament is constrained and this limits the opportunity for engagement.

Through consultation undertaken by the Comhairle citizens have the opportunity to comment on the prioritisation of local authority services.

However, there is no mechanism for the public to contribute to the debate as to the merits of investment in one area of public spending against another to reflect local circumstances and priorities.

It is appropriate for the policy of the elected Scottish Government to be led by the commitments it has made in its manifesto. This should mean that the Government can set out plans for its term in office that outline how funding will be allocated and what outcomes will be achieved.

Setting out, and monitoring performance against, such a plan would provide a framework for wide public engagement. Given constrained and reducing resources this should include areas of dis-investment needed to balance the budget or allow investment in new policies.

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

The Comhairle has, for many years, carried out extensive consultation on its budget.

This has been a process, rather than an event, whereby: financial projections are set out; proposals are developed; consultation takes place; proposals are refined in the light of the consultation; revised proposals are consulted upon; the Comhairle determines its budget; and the outcomes are monitored.

5. What should be the purpose of public engagement on the Scottish Budget?

To allow the public to have a say in the priority that the Scottish Government should attach to its planned outcomes and to report back on progress.

Stage 2 (Draft Budget Scrutiny Phase)
6. What should be the core objectives of parliamentary scrutiny of the draft budget?

To enable the Parliament to be satisfied that the draft budget will deliver the planned outcomes within the available resources.

The Parliament should also consider whether the risks associated with the draft budget are appropriate and managed.

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

Current arrangements mean that Parliament has a relatively short period of time to consider the draft budget and that the focus is on the financial package for a single year.

An ongoing process that sets the annual budget in the context of the overall plan for the Parliament, with a focus on how it would affect outcomes would allow for better scrutiny.

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?

Scotland will necessarily have to be ready to adjust its plans following the UK budget. However, the development of medium and long term financial plans need not be unduly constrained by the UK budget process.

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

Early publication and adopting a multi-year approach and setting out plans well in advance would enable all public bodies to plan more effectively.

Public discussion and scrutiny of planning assumptions would also help citizens understand the consequences of changes in the economic and financial environment.

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

Insufficient time is available for in-depth scrutiny of the draft budget and the outcomes it will deliver. This limits the opportunity for meaningful public engagement (which could lead to amendment of the budget to reflect comments and issues identified through an inclusive process).
11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

Parliament should have the opportunity to amend the Budget Bill.

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

None.

Theme 2: What is the impact of the Fiscal Framework?

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

The Scottish Government should publish all its planning assumptions, along with actual data when available, so that the public can understand and engage with the consequences of changes to the Scottish Budget arising from changes to aspects of the Fiscal Framework.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspect be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

The Scottish Government should consider setting up some form of independent scrutiny of the assumptions used for forecasting future revenues.
It will be important that projections on which future budgets are based are objective and evidenced based and that public bodies can understand the assumptions used.

Future Scottish Budgets should include scenarios for changes to key elements, how likely they are and how they would be addressed.

**Theme 3: How effective is the current approach to Multi-Year Budgeting?**

15. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

Spending Reviews should be carried out by each new Parliament and set out how resources will be raised and allocated to deliver the Scottish Government’s planned outcomes over its term in office.

As many policy objectives have longer term consequences each spending review should update a longer term financial plan, particularly in respect of capital investment which should be considered over a much longer timespan.

16. What level of information should the Scottish Government publish?

The Scottish Government should publish sufficient information to enable public bodies to effectively plan for the period of the review.

This would include core budgets, planned increase or decreases in funding, and outcomes to be achieved. It should also outline the key risks and areas that might vary if the planning assumptions change.

For an organisation such as the Comhairle there should be as much certainty as possible as to the resources and desired outcomes over the parliamentary term. This will facilitate effective long term planning by councils to enable the delivery of both local and national priorities.

17. What should be the role of the parliament’s committees in scrutinising Spending Reviews?

The Committees should scrutinise both plans and performance on an ongoing basis over the term of the Parliament.

Where the outcomes are not being delivered Committees should behold the delivery body and the Scottish Government to account.

**Theme 4: How effective is the current approach to Medium-Term Financial Planning?**
18. Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?

Yes, a plan for the term of the Parliament, accompanied by a high level long term financial plan should be produced.

Public bodies will be better able to plan for the delivery of outcome based services, especially ones with long term preventative objectives, in the context of a defined framework.

19. If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?

The plan should set out the Scottish budget and outcomes for each year of the plan at a level that enables effective planning (in the Comhairle’s context this would be funding for each local authority).

It should be updated annually to reflect changes in planning assumptions, such as pay. However, by setting out any such assumptions in the strategy organisations will be prepared for any changes.

Theme 5: How effective is the current approach to outcomes-based scrutiny?

20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?

From the Comhairle’s perspective there is an over emphasis on inputs (committed funding, teacher numbers etc.) where there should be a greater focus on (preferably mutually agreed) outcomes to be achieved.

There is also a tendency for debate to be around on budget changes, which affect the margins % of the budget, rather than considering if the core funding is sufficient to deliver statutory requirements.

Audit Scotland should continue to have a role in assessing performance and public bodies should be accountable for delivering outcomes.

21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

The Comhairle, through Community Planning, is leading an outcomes based approach. However, long term planning is hampered by short term financial settlements.
If the Spending plans and outcomes for the Parliament are set out and agreed then this would provide clear aims and accountability for public bodies.

**Performance and Reporting**

22. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF?

Allocated budgets should set out what outcomes they will deliver and over what timeframe.

To track progress effectively, changes in the outcomes and budget need to be monitored over the short, medium and long term.

23. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

Actual outcomes and budget need to be reported over the short, medium and long term.

24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

Through its committees Parliament should consider, on a regular basis, both the outcomes and a review of trends in these outcomes, together with budgets, spending and changes in planning assumptions.

**Public Audit**

25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

Establishing a set of outcomes to be realised over the lifetime of each Parliament will provide a framework to help Audit Scotland assess the success of organisations in delivering these and whether they are securing value for money in doing so.
Written Response from COSLA

Key Messages:

- The budget process needs to start considerably earlier to allow for meaningful engagement and enhanced scrutiny;
- We must move to longer term budgeting to support transformation of the public sector;
- There needs to be clear linkage between the budget and jointly agreed priorities and outcomes;
- We need to move away from an initiative led budget and focus on what the whole budget delivers, again in the context of priorities and outcomes;
- There is a greater role for the Scottish Parliament in scrutinising the new Fiscal Framework for Scotland; and
- Scottish Government policies must be considered in the financial context of the budget before any final decisions are made.

Introduction

1. COSLA welcomes the opportunity to submit a written response to the Budget Process Review Group’s Interim Report. While COSLA’s submission does not specifically address all the individual questions raised in the report, we have focused our comments around the five key themes identified by the Group.

2. Please note that our response focuses on the system and process that have been in place since the inception of the Scottish Government and Scottish Parliament in 1999, as well as more recent iterations. It is not intended to be criticism of any specific political party. Our comments are based on our experience of the budget process over a long period and our response seeks to use this opportunity to highlight how the system can be improved for the benefit of all spheres of government, the public sector and ultimately create a transparent and open process that can be understood by all.

3. As the Review Group may be aware, COSLA has considerable involvement in the Budget process, as the Local Government budget is negotiated directly between Scottish Government and COSLA. This gives us considerable insight into the current process and the ability to offer our experiences as to where the process could be improved. In light of the unique role COSLA plays in the budget process, we would welcome the opportunity to meet with the Budget Process Review Group for a further discussion on the points we raise below.

4. **COSLA particularly welcomes the debate on the budget process.** While delivering public services and ensuring value for money is always important, it is particularly important in the current fiscal landscape where resources are decreasing yet demand for services continues to rise. All spheres of government and the Scottish Parliament have a duty to protect the public purse and this review of the budget process is long overdue.
5. COSLA has had a number of concerns with the budget process for some time and has previously called for change to the current model. Indeed, in 2011 COSLA, the Scottish Government (at official level) and the Improvement Service were involved in the Strategic Finance Review Group (SFRG) which undertook a piece of work to look at the projections for the cost of delivering local government services. The SFRG concluded that the increasing demand for services and the rise in the ageing population set against projected income levels demonstrated that the current system of funding was unsustainable. At the time COSLA called for a fundamental review of policy in the context of the financial environment and in recognition that there was no scrutiny built into the current system, and there is no direct link between policy setting and the resource available. Furthermore, COSLA was concerned that the lack of review of policies and their associated outcomes and cost was creating further strain on the system. However, despite the SFRG work highlighting the problems within the system, our attempts to engender a public sector policy review were not successful.

6. On that basis, this work was repeated by the COSLA and Improvement side of the SFRG in 2015 and found that the projected gap between forecast funding and outgoings by 2020/21 to be £1.8bn. Given that this modelling work was undertaken in advance of the cuts to local government funding in 2016/17 and 2017/18 and the new policy requirements, we now consider the funding gap to considerably greater.

7. We believe that currently the budget process is used to balance the books on an annual basis rather than facilitate delivery of overall policy objectives. The work of the SFRG demonstrated that, even before the recent cuts to local government funding, the current budget process is unsustainable and needs to be reformed.

Theme 1 – How effective is the existing budget process?

8. COSLA has a number of concerns with the current budget process and believes that there is considerable room for improvement. From a high-level perspective, the budget process is very isolated and is set without any real reference to outcomes, the national performance framework, equality budget statement, or the shared ambitions and priorities across the public sector. Nor does the budget appear to reflect the Scottish Government’s commitment to public service reform. Indeed, COSLA is concerned that the current budget process is a substantial barrier to transformational change.

Shared priorities

9. Services are not discretely owned or delivered by any one body. Communities don’t have a preference as to which organisation delivers the service, rather they are concerned that they get a good service that offers value for money for the public pound. To deliver this we need to have a shared vision across all spheres of the public sector. Given the current financial climate, there is a stronger than ever need to ensure best use of resources when delivering services across the spectrum.

10. We therefore need a set of jointly agreed priorities and outcomes that reflect the shared ambitions of the public sector and it is these priorities and outcomes from which the budget should then flow. This ensures that policies and initiatives across the public sector do not unintentionally work against each other. The budget process should not be about protectionism or ownership of services, but about delivering the best services, in the most efficient, effective and democratic way, for communities.

11. Unfortunately, the current budget process considers services in silos. Public services are treated entirely discretely from one another by government. For example, the Local Government budget is negotiated and considered separately to that of the NHS, despite no one authority owning ‘Health’ and the recent establishment of Integrated Joint Boards (IJBs). In practice, the budget process routinely sees the different areas of public service being pitted against each other, in a fight for funding, when in fact we have shared ambitions.

12. **COSLA would welcome a new approach to the budget process which has a focus on jointly agreed priorities and outcomes from the earliest point.** This would involve jointly agreeing a set of high-level strategic priorities and outcomes, consider both income raising powers and expenditure, clearly linked to the Programme for Government, and from this the funding would flow. This would ensure public services are working together, not counter-productively and provide a strong rationale as to why funding is directed as it is, ensuring greater transparency at the core of the budget process.

**Budget timetable**

13. In order to deliver an outcome focused budget, the timing of the budget process is key. **Taking a strategic approach and agreeing high-level shared principles at the earliest opportunity would enable a more joined-up approach to the funding of public services in Scotland.** We all know the current difficulties in funding public services and therefore transformation is essential. The budget needs to be used as the process in which we talk about how this transformation can happen.

14. As the Budget Process Review Group will be aware, Scotland has recently had a succession of one-year budgets. **Lack of visibility of any medium or longer-term budgets from Scottish Government creates considerable uncertainty and limits scope for longer-term planning to take place and limited scope for transformational change of services at the local level, issues repeatedly highlighted by Audit Scotland.**

15. In addition, an earlier approach to the budget process would facilitate public authorities to adapt their internal processes, which will aid longer-term planning and service transformation, ultimately protecting the public purse. Currently, the process is disparate, with different public authorities setting their budgets at different points in the year. In recent years, because Local Authorities are legally required to set their budgets by the 11th March, these are often drafted and consulted on before Councils have any indication as to the funding available from central government. The effect of this is that, despite having a draft budget agreed at a local level that has had community consultation and input, this then has to be revised once the detail of the budget is known. As has been the case in recent years, Local Authorities have had to amend their budgets significantly to make considerable additional savings. This is not helped by the lack of a common timetable of budget setting across the public sector. While Local Government set their budgets before the start of the financial year, other bodies set their budgets at different dates. For example, the NHS only set theirs in the first, and sometimes second, quarter of the year.

16. This is a significant issue and once which both Government and the Parliament have been aware of for some considerable time. It is particularly pertinent given that Local Authorities and the NHS undertake joint working and jointly fund the Integration Joint Boards (IJBs). It again demonstrates the silo’d approach in the system but moreover shows that this separate approach no longer works. Indeed, over the last 5 years Health Boards have consistently overspent and this has a significant impact on the public purse and available funding. While a more collaborative timetable would seem sensible, fundamentally we need a clear and robust budget process which will facilitate public service reform and
transformational change, not just the alignment of individual public authority budget timetables.

17. The scrutiny timetable is also an area where we believe reform is overdue. Currently the scrutiny process, by its design, has a strong focus on the budget retrospectively. However, we firmly believe that the budget process needs to include a scrutiny function from an earlier stage and to scrutinise all elements of the budget – from the setting of priorities and outcomes, to the fiscal framework and envelope of resource available, through to considering the consequences of the detailed allocations. For the budget process to be truly open and transparent, scrutiny must look forward and cover all elements of the process.

**Budget Negotiations**

18. Our experience of budget negotiations is that these feel more like discussions, rather than a negotiation. However, regardless of whether these are discussions or negotiations, currently these are undertaken in a disparate manner with discussions reflecting the service providers, not the services or outcomes. An example of this is again the IJBs. Despite being funded jointly by Local Government and the NHS, at no point are there joint negotiations around funding. Having a strong set of jointly agreed priorities and outcomes to inform the budget would enable better negotiation to take place between all relevant stakeholders and Scottish Government in a more collaborative way.

19. Currently, the budget discussions take place very late in the process, with Scottish Government only sharing the details of the budget with local government at the point that the budget in published and announced in Parliament. COSLA does not dispute the importance of respecting proper parliamentary process, however, we strongly believe there should be space for genuine budget negotiation that covers the whole funding envelope and not just the margins at the earliest opportunity.

20. Indeed, Local Authorities set their budgets this way – by focusing on their priorities and outcomes and planning around this. Given that Councils have to legally set their budget by 11th March, and do so with considerable advance consultation with their local communities, this is done without knowing their figures – which in recent years have only been known in mid-December.

**Scrutiny**

21. In delivering a robust budget process, there is an important scrutiny role required. Not only at the level where figures come into play, but from the outset, and takes into consideration the shared priorities and outcomes of the budget. After this point, there is then a further scrutiny role to review how the budget is used to deliver these and the consequences of prioritising spend in one area over another.

22. COSLA recognises that currently there is a very limited timescale and ability for Parliamentary Scrutiny of the budget in the current process. Presently, both the Scottish Government and the Scottish Parliament take a very narrow approach to the budget and COSLA is concerned by the lack of joint working between the Parliamentary Committees on the budget and a lack of outcomes based focus at all levels. Parliamentary Committee debates are peripheral to the delivery of services, do not link to financial performance or the delivery of outcomes and this needs to change.

23. Given the constraints within the system at present, there is no consideration of the consequence of the decisions taken by Government in setting the budget and no opportunity for there to be early intervention by those in a scrutiny role to raise concerns as to the direction of the budget. COSLA sees this as a necessary part of an open and
transparent process. We accept that there are hard decisions to be made, but it is only right that the consequences of these decisions are open to scrutiny and can be understood, not just by Government, the Parliament and the public sector, but by citizens too.

24. This is not a new suggestion. The Budget Process Review Group will be aware that COSLA is a member of the Equality and Budget Advisory Group (EBAG) which helps shape the equality approach to the budget. COSLA has raised the need to look at the consequences of budget decisions at that group. Furthermore, we recently commented on the equality budget statement (EBS), which included many of the points contained in this submission. We would welcome the development of the EBS to be that of an assessment rather than a statement and that considered the cumulative effects and consequences of policies and how these are funded. COSLA strongly believes that equality should be considered from the point of budget conception alongside jointly agreed priorities and outcomes and not as an addition at the latter end of the process.

25. The tight timescale that the current scrutiny function works within means that while the public do have the opportunity to put their views on the budget to Parliamentary committees, we recognise the reasons why this is not proactively pursued under the current arrangements. COSLA believes that robust scrutiny is crucial to an open, transparent and fair budget process and it is therefore critical to address the current lack of space and time for budget scrutiny going forward.

Opportunity for change
26. The Budget Process Review Group may be aware that the Scottish Government is a member of the Open Government Partnership (OGP). Overall the OGP seeks to develop and share reforms that “promote transparency, empower citizens, fight corruption and harness new technologies to strengthen governance”. More specifically, within the Scottish OGP action Plan, the Scottish Government have identified 5 commitments. The five commitments laid out in the Scottish Plan aim to help people living in Scotland to better understand how government works so that they can have real influence and more effectively hold government to account. The commitments also support the development of newly devolved responsibilities such as Scotland’s significant tax, borrowing and welfare responsibilities. The first of the five commitments focus on Financial Transparency, with the aim 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.

27. Given this commitment by Scottish Government, the changes to Scottish Fiscal Framework and associated income raising powers, and that the current budget process is complex, subject to competing timetables, and in its present format does not reflect an open or transparent process, this would seem the right time to undertake transformational change in the budget process. In addressing the failings in the current budget process, Scotland will be much closer to achieving the aims of the OGP, as well as setting the necessary conditions needed for true transformations change within the public sector. While COSLA is critical of the budget process we would stress that we recognise that this is an opportunity for improvements to be made and COSLA are keen to work with the rest of the public sector and Scottish Government to achieve meaningful reform of the current system.

Theme 2 – What is the impact of the Fiscal Framework?
28. COSLA recognises that the Fiscal Framework is a complex process which will see Scotland’s block grant reduce and reliance on income tax increase. COSLA recognises that there is an additional scrutiny role required to be carried out in terms of the fiscal framework itself. This is particularly vital in the initial years given the numerous
assumptions being made, such as tax receipts varying in line with the wider UK economy, and the lack of historical data. COSLA believes that the importance of a scrutiny role in relation to the block grant itself is not to be underestimated.

29. Given the changes to the Fiscal Framework for Scotland, the system is set to become more complex and therefore less transparent, not only for Government, but for all stakeholders. It is therefore vital that the budget process is not only reformed, but reformed taking cognisance of the Fiscal Framework.

30. Certainly, any budget requires to consider the full financial picture. COSLA argues that this does not just include the Fiscal Framework in the process in terms of scrutiny, but also in considering all the possible financial levers. In delivering on jointly agreed priorities and outcomes, the budget process should reflect the new position of the Scottish Government in having income raising powers. Thus, the budget process is considering how income is raised rather than purely focusing on the expenditure side as is the current process.

31. **Now the Scottish Government has additional income raising powers through devolved income tax, we need to ensure that there is a robust approach to forecasting income generation at the national level, to establish a more reliable long term view for budgeting purposes.** Recent forecasting around non-domestic rates have been overly optimistic and we need to ensure robust forecasting so that proper longer term financial planning can take place.

32. By setting clear priorities and outcomes from the beginning of the budget process, clearly linking these to the programme for government, and seeing the impact of income generating powers will help create a considerably more transparent process. Indeed, Local Authorities already operate this way. They consider both their income raising powers and government grant, set their priorities at a strategic level and only then do they craft a more detailed budget. Local Authorities then consult widely on their draft budget, enabling them to refine and produce a final budget before the year end.

33. Furthermore, COSLA believes there is an opportunity for more financial levers do be available to local government. **At a time of increased financial autonomy for Scottish Government we would like to see this extended to local government. COSLA has been calling for fiscal empowerment for some time and we would like to see this considered in the context of the budget review.**

**Theme 3 – How effective is the current approach to Multi-Year Budgeting?**

34. As the Budget Process Review Group will be aware, there is a strong link between Local Government and other public bodies providing services. Indeed, no one body delivers a discrete service, with collaboration and joint responsibilities across the spectrum of services. For example, both local government and the Police have key roles in delivering community safety, as do Local Government and the NHS in delivering health. Local Authorities do plan ahead as far as possible, but this requires them to make significant assumptions, which is particularly difficult in a reducing budget scenario. **COSLA sees improved multi-year budgeting as a key necessity of the budget process going forward. In order to achieve this at Local Government level, we require longer-term strategic planning from central government and an understanding of shared priorities and objectives going forward. Better financial forecasting would particularly assist with this.**

35. The Scottish Government has set a succession of one-year budgets, despite having high-level information for budgeting purposes from Westminster up to 2019/20. The recent
frequency of political events, such as elections and referenda have all contributed to a decline in multi-year budgeting and an increase in budgets being ring-fenced. Considering that this is set against a decreasing budget, yet an increase in demand for services, this is not sustainable. Without shared priorities and objectives, it is almost impossible to undertake multi-year budgeting.

36. The current trend of one-year settlements is hampering public authorities from taking a more collaborative and longer term approach to service provision. In order to deliver true Public Sector Reform we need to better establish longer term financial budgeting. A planned approach involving all parties, including the Scottish Parliament, around budgeting and a shared direction of travel is integral to this.

**Theme 4 – How effective is the current approach to Medium-Term Financial Planning?**

37. A robust and renewed budget process would ideally see published multi-year financial planning by Scottish Government which would enable stakeholders to plan on a longer term in a way basis. Again, this would reflect joint priorities and outcomes and take consideration on both income generation as well as expenditure. This would also strengthen the link between the budget process and the programme for government.

38. The current approach to medium-term financial planning is too top-down, driven by national direction and in our view does not strike the right balance between policy implementation and available finances. In our experience, while there is medium-term planning regarding government policies and implementation timeframes cited for these within the Programme for Government, there is no financial planning as to how these policies will be funded. This is particularly apparent through Financial Memorandum’s which accompany Bills. It is imperative that there be robust Financial Memorandum’s accompanying new all draft legislation to ensure that proposals are deliverable within the budget envelope. While these are considered by Parliamentary Committees at the time the Bill is introduced to Parliament, these are never revisited so that there is no scrutiny as to the true cost of the policy.

39. This is the case with Welfare Reform. There have been considerable changes over the last few years with the increased devolution of welfare powers to Scotland, however the impact of all these incremental changes has never been properly identified or scrutinised as a whole and certainly not considered in the overall context of the budget. The additional costs that have occurred from all the changes have been largely absorbed by Local Government, yet there is no review of these policies or the financial impact of these policies.

40. The current budget process does not protect against the unintended consequences of ‘cost shunting’. Where services in one area are diminishing due to budget cuts, for example a reduction in Community Policing, the fall out and resulting cost of that is very often picked up elsewhere and in this case by local government. The reverse is also true. By not investing in preventative measures at the local level, the burden on acute care being delivered by the NHS increases. This is exacerbated by the strong focus in the current budget process on inputs rather than outcomes and demonstrates the need for strategic direction from the budget so that cost savings made in one area do not end up costing money in another area – something which multi-term financial planning could help guard against. Ultimately we need a whole system approach to the budget and a move away from the existing siloed approach.

41. Under the current process we find ourselves in a stalemate where the budget is set at a national level with Local Government dealing with a set of 'best estimates' at a local level. Invariably, these are then refined to reflect the Governments budget announcement. But
given that Local Government only discover their share of the overall budget when it is announced in Parliament, there is no way of understanding in advance if the priorities set at a local level will be reflected in the budget from the centre. Published multi-year financial planning by Scottish Government would enable stakeholders to plan on a longer term in a way that does not see a clash of priorities. COSLA is clear that there is no technical reason why Scottish Government couldn’t publish medium term financial plans. Indeed, this would also meet Audit Scotland expectations for Councils, who have considerably less control over their resources than Scottish Government.

42. The new Autumn statement further revises the current budget timetable and we are concerned that this might mean the budget is announced even later than it is currently. In our view the Autumn statement should not be an excuse to delay announcements. Instead we argue that **Government need to be scenario planning in a robust and collaborative way with stakeholders in advance of the Autumn Statement.** Recognising that this would require amendments after the Statement, we strongly feel that this would be a transparent way in which to demonstrate the amendments required and would be preferable to the way in which the current budget is presented – as a fait accompli.

**Theme 5 – How effective is the current approach to outcomes-based scrutiny?**

43. COSLA believes that the budget process should take consideration of the totality of the budget. Setting jointly agreed priorities and outcomes from which the programme for government and the funding flow are key in doing this, so that the focus does not become the periphery of the budget and on new initiatives.

44. In the current process, the focus of negotiations is on the peripheral funding, there is no policy or strategic link between the core funding and initiative funding. This repeatedly sees competing policies both within local government and even between Public Authorities, that a more strategic approach with a focus could avoid. For example, discussions focus around new policies to be undertaken by local government and funding for new nationally directed initiatives, such as the attainment challenge, and not on the core funding. In reality, this sees considerable time and effort spent on small pots of initiative funding (the Attainment Funding being circa £100k), whilst the core settlement is largely ignored, despite being circa £10bn.

45. Further to this, there is never any reflection either at national or local level, on what these initiatives have actually delivered and Government, both at national and local level, bear the burden of the legacy of these initiatives going forward. While Scottish Government argue that these are fully funded, once they are incorporated into the core budget, these become subject to the core budget cut along with other service areas. We are not advocating a zero-based approach to budgeting, however **going forward, COSLA would like to see a reformed budget process which sees a greater concentration in negotiations on the core budget for local government, with a robust mechanism in place to ensure the regular review of policies and initiatives.**

46. While Local Government recognises the importance of an outcome focused budget, the local government budget still has a significant reliance upon inputs, such as Teacher Numbers and ring-fenced areas of funding. This is in direct opposition to an outcomes based approach, and despite clear evidence that inputs are not a good measure of success, nor does this ensure best value from public funds. **There needs to be a better understanding by all stakeholders as to the impact and consequences of focusing on inputs in the budget process, particularly in the current fiscally challenging environment.**
47. The lack of an outcomes based approach is also visible at the highest level. The current budget process does not reference the National Performance Framework, the equality budget statement, Local Authority Single Outcome Agreements, or other outcome focused planning elements. Priorities at a national level are disjointed and there is no opportunity for these to feed into the budget process. It is COSLA’s view that the budget is the natural place for all outcome-focused conversations within Government to gather in a cohesive manner.

48. An outcome-based approach that is built on key priorities would help Government and Public Authorities assess activity. If we are undertaking activity that is not clearly linked to the agreed outcomes and objectives we must not be scared to ask the question, ‘why are we doing this?’. **We need to be open and transparent as to why we do things and if they are not in line with the objectives of the public sector then we need to be brave enough to stop doing things, particularly as demand is rising when funding is falling.**

49. The current budget process is increasingly ring-fenced and short-term initiative driven. This has created a challenging split between Local Government and Scottish Government in terms of accountability. Increasingly Local Government is seen as a delivery vehicle for Scottish Government policy. This is particularly acute in times of increasing demand for local services in an environment of decreasing financial resource and funding streams are directed to central initiatives leaving little flexibility at local level to reflect local circumstances and democratically accountable to the local electorate. Ultimately, public money is being spent, whether this be at the national or local level and joint agreement of shared priorities and outcomes is required to enable all spheres of government to balance their priorities and deliver to the electorate.

50. What is clear is that we need to shift the focus from inputs, particularly in the form of short term initiative funding, to outcomes, to address the growing need for early intervention and support the prevention agenda. We need a system that will allow the budget process to take cognisance of the importance of an outcome focus. However, outcomes must not only be considered at the planning part of the budget process, but must also be reflected at the scrutiny stage too. Indeed, by taking early consideration of outcomes, this makes the scrutiny role easier, particularly in terms of assessing whether the draft budget will deliver the desired priorities and outcomes sought.

**Conclusion**

51. In conclusion, COSLA sees this as an opportunity for setting out a fundamentally different approach to the budget process in Scotland. COSLA welcomes the debate that the Budget Process Review Group is encouraging and would be happy to engage further with the Group further this matter.
Written Response from East Ayrshire Council

Theme 1: How effective is the existing budget process?

Principles Based Approach

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

A process that gives sufficient time for scrutiny by stakeholders and partners requires a commitment to provide relevant budget data and information in advance of the official publication. Thereafter a period of time that permits stakeholders and partners to provide views and comments on the proposals contained in the draft consultation should be provided.

Consultation is a fundamental part of the budget process and for it to be meaningful and effective then there has to be a willingness to share budget documents, plans and assumptions earlier and in a form that is clear and easily understood. It should also allow a period of consultation where views and comments can be made on the proposals. Consultation on one year plans can provide helpful views and insight however the process works best when the budget plans are multi year and enable stakeholders and partners to see a clear direction of travel in terms of national and local priorities.

In order to deliver an ambitious world class scrutiny function there needs to be an openness and transparency to the process, which it could be argued is not readily evident in the existing arrangements. A clear timeline in terms of budget preparation, with explicit and identifiable assumptions of funding and expenditure levels spread across multi years forms part of the process. All of which should be set against readily identifiable performance criteria and benchmarks upon which scrutiny can take place and be evidenced. This essentially is the starting point of building the world class scrutiny process being sought.

Full Year Approach

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?
Yes if for no other reason than to acknowledge that the initial budget assumptions taken at the creation of the budget can change throughout the year. A full year approach will lead to timely information being presented to Committee and lead to a more meaningful scrutiny where discussion and challenge can be made on the latest information and not on a historical and out of date position. This will lead to an increased accuracy of the financial information where trends and patterns can be identified, discussed and scrutinised and set against the benchmarks and performance information linked to the spending proposal.

Public Engagement

3. How effective is current public engagement in the budget process and how can this be improved?
The current public engagement process is fairly limited in terms of scope and reach. Meaningful engagement can be challenging but it also has the potential to bring forward insightful and innovative views to the benefit of stakeholders, partners and the Scottish Government.

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?
The elements of good practice include early access to information, and a consultation timeline that allows meaningful comments and views to be expressed.

5. What should be the purpose of public engagement on the Scottish Budget?
To provide local views to Scottish Government on its spending plans and priorities and enable the views expressed to be considered and potentially acted upon.

Stage 2 (Draft Budget Scrutiny Phase)

6. What should be the core objectives of parliamentary scrutiny of the draft budget?
To hold to account and to ensure that the earlier decisions and assumptions around income and expenditure accurately reflect the current position and that these remain aligned to national priorities. In addition scrutiny must also include determining whether the NPF...
objectives are being met and that the budget allocation delivers value for money.

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

No comments

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?
It has the potential to cause delay however action should be taken in consultation with UK Government to ensure that this delay does not adversely impact upon partners.

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?
It can be improved by providing early drafts of the documents and importantly, by sharing details of any and all assumptions. It can be further improved by providing multi year budgets as part of a medium term financial strategy and by aligning budget planning to national outcomes and objectives.

Theme 2: What is the impact of the Fiscal Framework?

10. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

Clarity around tax receipts with a comparison to the earlier assumption on the level of expected receipts. There should also be a readiness to prepare for the fluctuation in receipts that will occur as a result of the move from IPC to CM and how such change will impact on the BGA.

A clear reconciliation of each tax and the relevant adjustment together with any additional funding as a result of Barnett consequentials etc would be helpful in understanding the totality of the budget.
11. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

Consideration should be given to independent scrutiny similar to OBR. Also important to review any assumptions and inconsistencies between UK and Scottish interpretation of data.

**Theme 3: How effective is the current approach to Multi-Year Budgeting?**

Political cycles and associated election events appear to have had an impact on MYB. The one-year settlement approach is not sustainable in terms of supporting financial planning in the medium / long term.

12. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

To publicise the spending plans for the forthcoming years. The Spending Review should be for at least three years in duration and should be sufficiently detailed and financially robust to allow effective financial planning for the short to medium term to take place both at a Government level and also at a partner level. There should be clear and unambiguous linkage to priorities and NPF. Any move towards preventative spend should be factored into spending reviews.

13. What level of information should the Scottish Government publish?

Noted earlier – clear assumptions, multi-year, funding trends and patterns, estimates and profiles of tax receipts.

14. What should be the role of the parliament’s committees in scrutinising Spending Reviews?

Affordability, and challenging assumptions. Reviewing shifts in funding between delivery areas or partner bodies. Consideration of alignment of funding with strategic priorities and outcomes.
How effective is the current approach to Medium-Term Financial Planning?

15. Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?
Yes and the MTFS should cover the Parliamentary term based on the funding assumptions and local and national spending proposals and objectives. This should link to SFC and the MTFS should be scrutinised by the SFC in the same way as the Scottish Budget in order to ensure the adequacy and robustness of the Strategy.

16. If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated

The MTFS should detail funding by type and include assumptions around the BGA. It should contain spending assumptions and plans together with allocations to the different elements of the Scottish public sector across each year of the Parliament. It is acknowledged that the plans may change given the financial assumptions in place at the creation of the MTFS. However, any fluctuations arising are outweighed by the benefits of having the MTFS.

Theme 5: How effective is the current approach to outcomes-based scrutiny?

17. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?
An increased focus on prevention and preventative spend in addition to the existing emphasis on VFM should be developed. An understanding of the financial model to support this type of approach also needs to be developed.

18. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?
More transparency over the cost of & funding allowed for new policy initiatives and legislation in the Scottish Budget would be beneficial, especially since these can (if not fully funded) act as effective ring-fencing of existing funding.
‘Exit plans’ and a ‘whole life costing’ approach might be suggested for new policies in future. A clear time horizon for post implementation scrutiny to assess the success of any initiative may also be beneficial.

Public bodies already deliver an outcome based approach to budgeting with scrutiny of performance against spend being a significant part of the outcome based approach. If this area is to increase further in relation to the Scottish Government budget then a clear timeline of budget preparation and approval is needed together with an opportunity to participate in effective consultation would be beneficial. Furthermore the availability of in-year spend and funding information aligned to SG and NPF objectives would enable public bodies and the wider public sector to take a holistic view of national priorities and remain an effective partner in their delivery.

**Performance and Reporting**

19. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF?

There should be explicit reference to NPF indicators and priorities at the time of the spending announcement together with a timeline showing the datasets that will be gathered to support the spend and objective. The dataset will enable those who will scrutinise to assess the effectiveness of the budget allocation and more importantly determine whether the objective has been met.

20. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

21. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

**Public Audit**

22. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?
The Audit Scotland assessment should include a reasonableness test and thereafter scrutinise the spend and performance data against NPF priorities to ensure the effectiveness of the spend and ensure VFM. The move towards an explicit statement of intent when budget allocations are announced specifically when set against NPF priorities will provide clarity in scope and enable partners to clearly see the outcome being sought by the policy initiative.
Written response from Economy, Jobs and Fair Work Committee

Budget Process Review Group

Having brought your letter of 10 March to the attention of members of the Economy, Jobs and Fair Work Committee, allow me to highlight the following—

- Relevant to your heading of full year approach, we would point out the EJFW Committee’s intention to place greater emphasis on the mid-year point when the spending allocated to the enterprise agencies is finalised, inviting Scottish Enterprise and Highlands and Islands Enterprise to appear before the Committee when allocations are more clearly known. We can then use that evidence to feed into our autumn budget scrutiny, likely focusing on the Cabinet Secretary at that point;

- The importance of multi-year budgeting i.e. the merits of looking further ahead than a mere 12-month period, for example the three-year spending review period used by the Scottish Government in previous parliamentary sessions. This is a point made by members of our Committee during budget evidence sessions at the end of last year. We acknowledge the challenge posed to the Scottish Government by the timing of UK budget cycle, but we would encourage, where possible, a longer-term view is taken when it comes to setting out their spending plans, three years being a tried and tested time-span;

- Strategic approach to financial planning – this would certainly be desirable but committees must have sufficient time to consider the budget alongside forecasts from the Scottish Fiscal Commission;

- In terms of outcome-based budget scrutiny, we fully recognise the merit of Audit Scotland giving evidence to the Committee on relevant work. Last September we invited AS to brief us privately on their work on the enterprise agencies and, having found the session useful, and, allowing time for their report to be considered by our Public Audit Committee colleagues, we asked AS back to put their findings on the public record. This input was of benefit to our scrutiny of the budget allocations for the enterprise agencies, as can be seen by the various references to their work in our budget report. The EJFW Committee is keen to draw on AS’s work again in the future, whether budget-related or for other areas of work. I am aware the Clerks keep in touch with
AS officials, monitoring areas of overlap and mutual interest, and exchanging information and ideas, with the aim of informing our own scrutiny function.

I hope this may be helpful to your considerations.

Kind regards

Gordon Lindhurst MSP
Convener
1. INTRODUCTION

Engender works in Scotland to advance women’s economic, social and cultural, and political equality with men. We make visible the ways in which women’s inequality impacts Scotland, and bring women together to make change happen.

Engender welcomes this opportunity to submit our views to the Budget Process Review Group. Scotland’s budget is a statement of our nation’s macroeconomic policy intentions, and of our spending priorities. As our understanding of the economy and the choices we make about spending both have profound impacts on women’s lives, it is vital that the budget is well gendered.

As such, Engender wishes to see gender equality analysis embedded (‘mainstreamed’) across all aspects of the Scottish budget process: in the Scottish Government’s objective setting and budget development; in parliament’s scrutiny of the budget; in civil society’s engagement with the budget and in the principles that underpin the Budget Process Review Group (BPRG) itself. We would like to see Gender Budget Analysis (GBA) undertaken by the Scottish Government at all stages of the budgeting process, and for parliament to ensure that this is taking place.

To date, the development of equality analysis in the Scottish Budget process has been limited. While the publication of the Equality Budget Statement signals a positive engagement from the Scottish Government, this has had limited impact on the budget process, as it currently sets out analysis of spending decisions that have already been made.

Parliamentary scrutiny of the budget appears to have had little focus on equality, with subject committees rarely including equality impacts in their scrutiny of the Draft Budget or Spending Plans, and little use being made of the Equality Budget Statement. We are disappointed to see this lack of focus further reflected in the Budget Process Review Group’s Interim Report, and the related themes and questions in this consultation, where equality is notably absent.

We would suggest that one of the core objectives of parliamentary scrutiny of the budget process should be to ensure that the Scottish Government are playing their role in undertaking adequate gender analysis, and further, to ensure that the Scottish Budget enhances rather than regresses equality in Scotland.

2. WHAT IS GENDER BUDGET ANALYSIS?

Gender budget analysis (GBA) is an approach that systematically takes account of how public budgeting decisions impact women and men differently, and how they impact gender equality. Frequently, resource allocation and revenue-raising processes lead to unintended and unjust consequences. For example, the Scottish
Women’s Budget Group have shown how austerity policies are being paid for predominantly by women, with 86% of the net ‘savings’ raised through UK Government cuts to social security and tax credits will come from women’s income. Certain groups of women, such as lone parents, and black and ethnic minority women, are among the worst affected. Similarly, taxation is often more heavily borne by women: in the June 2010 UK Budget, for example, of the £9bn net revenue that was set to be raised by the financial year 2014-15, £6.4bn was from women (71%), in contrast with £2.6bn from men.¹

GBA can expose the gender bias within budgetary processes that are otherwise assumed to be gender neutral, and aims to strengthen gender equality of outcomes across all public expenditure and government departments. An established definition of gender budgeting refers to “a gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality” (Council of Europe, 2009). It is not a separate budget for women, nor is it about governments spending the same on men and women: it is about whether spending is adequate to meet both men and women’s needs.

GBA can and should be undertaken at all points of the budget cycle (planning, objective setting, allocation, evaluation), and form an integral part of policy formulation around the budget, intrinsically linked with the substance of policy development in each domain of public policy.

2.2 GENDER BUDGET ANALYSIS IN SCOTLAND

For the Scottish budget process to advance gender equality (and therefore succeed in its core function of delivering Scottish Government policy) GBA must: happen at every stage of the budgeting process; be integrated into financial planning throughout the year; be complemented by parallel accountability mechanisms and monitoring and evaluation. Further, Scotland’s new taxation powers are an opportunity to ensure robust gender equality analysis takes place at the level of revenue generation.

Since devolution, Scotland has made some progress towards gender-responsive budgeting, primarily in the form of the Equality and Budget Advisory Group and Equality Budget Statement (EBS).² Published in parallel to the Draft Budget, the EBS assesses the Ministerial Portfolios’ proposed spending plans for their impact on equality, and is currently the only process of its kind in the UK.

However, at present, the EBS serves as a standalone document, setting out analysis of spending decisions that have already been made, and as such has had limited impact on the budgeting process itself. Gender advocates in Scotland are querying whether progression towards full GBA in Scotland has stalled in light of the statement, and MSPs and the Scottish Parliament Information Centre (SPICe) have

¹ Claire Annesley, Women’s Budget Group (2012), Gender Budgeting: Promoting Gender Equality Through Economic Policy
² Scottish Government: http://www.gov.scot/Topics/People/Equality/18507/13477
questioned its timing, as it cannot act as a scrutiny process. To have an impact on gender equality in Scotland, the EBS requires a clearer purpose and must substantively inform development of the Scottish Draft Budget, and it should be used more effectively by MSPs and parliamentary committees in their budget scrutiny.

In Engender’s 2016 Gender Matters Manifesto, we called for the Scottish Government to extend the Equality Budget Statement process into a full gender analysis of the Scottish Budget, where the cumulative impact of spending decisions on women’s equality is considered. GBA should become embedded within the Scottish Government’s normal annual routines of budgeting and of policy-making, rather than be used only as an extrinsic form of analysis, and Government should be able to demonstrate how GBA has informed resource re-prioritisation and re-allocation decisions across spending portfolios. We have also been calling for demonstration programmes to illustrate best practice and identify key intervention points throughout the fiscal year.

One of the key roles that parliament can play is to scrutinise this process, ensuring that Government officials are undertaking adequate gender equality analysis in each department and across each spending portfolio, and holding government to account for the promotion of gender equality in activities and investments across all sector areas.

Parliament can also seek to bring in additional legislation or regulations that require Scottish Government to undertake GBA in all public spending and revenue-raising, to strengthen accountability and make robust equality budgeting a legal obligation in Scotland. For example, Scottish Parliament could look at whether it is possible to amend Public Finance and Accountability (Scotland) Act 2000, or to enhance the Scottish specific duties under the Public Sector Equality Duty.

3. TAKING A GENDERED APPROACH TO PARLIAMENTARY SCRUTINY OF THE BUDGET

In addition to ensuring that the Government is undertaking Gender Budget Analysis at the various stages of budget development and spending (see above), there are a number of ways in which parliament can apply a much-needed gendered approach to their scrutiny of the draft budget, and help improve outcomes for women.

We would suggest that one of the core objectives of parliamentary scrutiny of the draft budget should be to ensure that the Scottish Budget enhances rather than regresses equality across Scotland.

5 ibid
6 ibid
7 The Public Sector Equality Duty was created under the Equality Act 2010.
3.1 PRINCIPLES AND GENDER COMPETENCIES

Engender and the Scottish Women’s Budget Group would like to see a commitment to equality reflected across parliamentary scrutiny of the budget, and feel that the Financial Issues Advisory Group (FIAG) principles would be strengthened through the inclusion of equality as a core principle, in line with the founding principles of the Scottish Parliament that include equality, transparency and accountability.

We would also wish to see the Parliamentary Budget Process Review Group include equality as a main theme of discussion in their reporting. We are disappointed to see, for example, that a recommendation that has been made to the Group in the ‘Good Practice in Parliamentary Budget Scrutiny Report’ on the provision of equality relevant information\(^8\) has not been incorporated in the BRPG's Interim Report, unlike other recommendations from the same Good Practice report.

In order to fulfil this commitment to equality as a central part of the scrutiny process, we would also recommend that the BRPG review its own gender competency, and the competencies of the relevant parliamentary committees – i.e. that they can demonstrate capacity and skills for gendered analysis either in-house or through links with non-parliamentary experts. Further, the BRPG could also review whether there are the right systems and tools in place for the committees to perform equality impact assessments of the Draft Budget and spending plans, and develop toolkits and questions for parliamentary scrutiny bodies to consider a gendered perspective where the adequate systems are not yet in place.

3.2 FINANCE AND CONSTITUTION COMMITTEE AND SUBJECT COMMITTEES

In examining the Scottish Government’s tax and borrowing proposals and the operation of the Fiscal Framework, we would like the Finance and Constitution Committee to include equality as a core consideration, in particular looking at how new taxation policies may impact men and women differently. To date, the gendered dimensions of taxation and revenue generation have been given little consideration in Scotland. Similarly, we would want to see the Committee consider gender impact when looking at any alternative spending proposals from the subject committees, and for the Finance and Constitution Committee to play a lead role in encouraging an equalities focus in the subject committees.

Practice across the subject committees is variable, inconsistent and rarely is there a lead focus on equality implications of the Draft Budget. Subject committees do not routinely include the equality impact of budget proposals in their core scrutiny of the Draft Budget or Spending Plans, and rarely submit any suggestions on how the Draft Budget could be better gendered.

Engender would like to see subject committees:

\(^8\) Joachim Wehner (2017) Good Practice in Parliamentary Budget Scrutiny
http://www.parliament.scot/S5_Finance/Reports/2017.03.09_Joachim_Wehner.pdf
• Select gender and/or equality-specific topics for discussion and review and regularly take evidence from women’s organisations and women service users (see also section on engagement);
• Hear evidence from experts as to whether Gender Budget Analysis has been adequately undertaken by the relevant Government departments;
• Submit specific equality information as part of their reports to the Finance and Constitution Committee;
• Use their powers to submit alternative spending proposals more frequently, with a particular view to proposing alternative spending models that aim to rebalance spending that favours men over women;
• Build on the work that they have been doing in scrutinising public bodies, and include a specific question or set of questions on equality when writing to request information on how spending decisions are made and prioritised.

3.3 TIMING

The delayed publication of the Draft Scottish Budget in the past few years has reduced the time for scrutiny, and for organisations like Engender and the Scottish Women’s Budget Group to comment on its content, and also makes wider public engagement much harder. This year, most of the subject committees were only able to hold one oral evidence session following the publication of the 2017/18 Draft Budget (and the Interim Report notes the concerns raised by the Committees for their reports), which means that any intended focus on equality is likely to get lost due to time constraints.

However, it is also important that the Government has adequate time to perform robust gender analysis as part of their budgeting process. As such, we support a full-year approach to parliamentary scrutiny, in which the impacts of spending priorities and budgeting can be evaluated throughout the year (see section below) and at any stage of the process.

4. BUDGET STRATEGY AND OUTCOMES

Engender supports greater parliamentary (and public) involvement in the Budget Strategy Phase, and at all points in the process when the Scottish Government is devising macro-economic strategy and setting targets and spending priorities. We would see parliament’s involvement taking place at any time in the budget cycle, rather than waiting for the Draft Budget to be produced.

The Scottish Budget Process should also be strategically linked to Scotland’s macro-economic strategy and National Performance Framework, and gender equality should be present and coherently linked across all top-level areas of policy. However, it should be noted that while the National Performance Framework includes outcomes and objectives relating to ‘inclusive’ growth and addressing inequalities, work that Engender has undertaken with other representatives from our sector has shown that these terms are ill-defined and ill-gendered, and could actually be detrimental to pursuing a vision of gender equality in Scotland. In particular, the
indicators are problematic (for example, the pay gap indicator only reflects full-time work) and Engender would not want to see the budget too closely linked to these. To be of value to the process, the NPF should include an economic framework that measures and values women’s contribution.

4.1 THE FULL YEAR APPROACH

We would support options for broadening budget scrutiny beyond the period between a draft budget being published and the Budget Bill being passed, as part of a full-year approach.

This would allow parliament, and the public, to have greater influence over government thinking on women and equality in the earliest stages, ensure that GBA is happening within government departments at all stages, and influence expenditure plans in ways which would ensure spending would take into account the different impact on men and women in Scotland.

A full-year approach would see a more systematic and sustained parliamentary engagement in the budget process, which would in turn give time for particular thematic approaches – including on gender equality – and a series of evidence sessions to better inform the process. It would also give time for committee members to conduct ‘site visits’ to public bodies and government departments to review whether gender equality assessments are taking place.

There is also evidence to suggest that medium-term financial planning can be a vehicle for mainstreaming and integrating equality objectives into the budget process\(^9\), and Engender would welcome a review that further studied this.

5. ENGAGEMENT

The OECD Principles of Budgetary Governance includes the recommendation that a country’s budget process should “provide for an inclusive, participative and realistic debate on budgetary choices”.

In Scotland, the fact that there is an open period for public scrutiny and consultation on the budget is something that is highly welcomed. However, in practice, engagement during and around this time is relatively weak and ineffective. This is in part due to the short timeframe, but also due to the inaccessibility of the information made available.

There needs to be investment in improved information provision, building on what is being provided by SPICE, that is clear and accessible. Information made available, including questions for consultation, should take into consideration the needs of the audience and how to reach (and be useful to) previously unengaged or harder to reach audiences, as well as the gendered nature of how people respond to questions. For example, those who are affected most by cuts in public spending –

\(^9\) Diane Elson (1997) *Tools for gender integration into macro-economic policy*
women, black and ethnic minorities and those reliant on welfare – are often the least likely to assume that they have enough expertise to respond to questions about a budget process, particularly if framed as an expert-level conversation, when in fact it is vitally important that these groups are heard from. This is also true for contributions from third sector organisations, who do not necessarily see themselves as expert in economic or budgetary issues, but represent key groups in Scottish society. The questions of this consultation are a good example of using language that will likely exclude a large number of individuals and organisations from responding.

The committees should work with the Parliament Education Service, and with third sector organisations such as the Scottish Women’s Budget Group and others, to build public awareness, understanding of and involvement in the budget process. Producing short videos of how the budget works, for example, or case studies that show how different spending decisions affect different people’s lives, could be extremely helpful in engaging a wider audience.

The Finance Committee’s practice of holding an external meeting each year to gauge the impact of the budget on local areas is one that is welcomed and could be extended. For example, meeting with specific groups of people (women, people with disabilities, black and minority ethnic groups) to assess how the budget has impacted them differently. This practice could also be extended to subject committees, who could hold public meetings with different representative groups.

The Interim Report states that “given the nature of the Scottish Budget which focuses largely on high-level decisions about revenue raising and resource allocation, a key question is what the overall purpose of public engagement should be.” We would argue that how resources are allocated is likely the area of governance with the most day-to-day impact on public life, and should not be treated as an issue that is in some way above or beyond the public’s capacity to engage. The purpose of engagement is to enhance the public’s understanding of the process and to improve the mechanisms by which the public can hold the government to account over decisions that affect their daily lives.

6. RECOMMENDATIONS

Engender recommends that the Budget Process Review Group incorporates equality as a core area of engagement when reviewing the current parliamentary scrutiny process. In particular, Engender recommends that Parliament:

- Incorporates equality as a core principle in their work on budget scrutiny, in line with the founding principles of the Scottish Parliament
- Uses its powers of scrutiny to check that Gender Budget Analysis is being undertaken by Government throughout the budget setting process
- Works to improve the gender competencies of the committees working on budget scrutiny
- Takes a greater role in the Budget Strategy stage, to ensure that equality are taken into account in objective setting and defining spending priorities
• Ensures that robust gender equality analysis is applied to Scotland’s new revenue raising and taxation powers
• Increases engagement with women, women’s groups and gender experts in their scrutiny of the budget
• Requests more gender-disaggregated economic data
• Pushes Scottish Government to classifying spending on childcare and social care as capital expenditure in Scottish budgeting processes.

7. CONTACT DETAILS

For further information, please contact: Kate Nevens, Policy and Parliamentary Manager, Engender on kate.nevens@engender.org.uk
Written Response from Environment, Climate Change and Land Reform Committee

You will recall that in June 2016 the then Finance Committee sent a letter to all committees with a copy of its budget process guidance ahead of the Draft Budget 2017-18. As you know, the guidance highlighted the requirement for all committees to consider climate change issues when scrutinising their own relevant Scottish Government portfolios and to report to the Finance Committee accordingly. It also said that the Environment, Climate Change and Land Reform (ECCLR) Committee would “reflect upon the progress made by all committees following the 2017-18 budget process with a view to informing future engagement and proposals for climate change scrutiny ahead of the 2018-19 budget.”

The ECCLR Committee’s subsequent report on the Scottish Government’s Draft Budget 2017-18 confirmed this approach and agreed to consider whether the delay in publication of the draft budget allowed committees sufficient time to properly scrutinise climate change issues. It also agreed to highlight this work to the Budget Process Review Group, which will also receive a copy of this letter.

Review of committee scrutiny

Scrutiny of Climate Change Expenditure

Session 4
At the end of Session 4 the Rural Affairs, Climate Change and Environment (RACCE) Committee recommended, in its legacy paper, that the consideration of climate change issues should be mainstreamed across all relevant subject committees, given that it may “not be able to effectively scrutinise all of the Scottish Government’s spending that impacts climate change, given that there is spending across the remits of many other committees.”

The RACCE Committee nevertheless acknowledged that “the failure of some relevant committees in the Parliament to meaningfully engage with climate change issues in the budget process was one of the more disappointing aspects of the session. It also suggested that “successor committees should think carefully about how to approach scrutiny of the draft budget in a way that can make a genuine difference and be of real value and does not simply
detract from time which could be spent on other issues which may deliver greater outcomes.”

*Draft Budget 2017-18*

Of the committees who reported on the Draft Budget 2017-18, three, in addition to the Environment, Climate Change and Land Reform Committee, commented on climate change spending. The other committees made no mention of climate change. Of those that that referred to climate change within their portfolio, they acknowledged that given the time available, their scrutiny would not permit them to adequately consider climate change in detail.

While the ECCLR Committee fully recognises the challenges in considering climate change issues within the budget scrutiny process, the extent of committee engagement was disappointing. The Committee is of the view that under the current system of budget scrutiny, with the limited time available to parliamentary committees following publication of the budget, the consideration of climate change spending is failing to adequately consider the Government’s spending plans to address this vital issue.

*Publication of the document detailing climate change mitigation measures*

The Scottish Government document detailing the funding for climate change mitigation measures was published on Monday 19 December 2016; four days after publication of the Draft Budget 2017-18. The production of this document was in response to the recommendation of the RACCE Committee to show spending on climate change issues more clearly across all portfolios. The timing of publication of this document for the most recent Budget was a considerable improvement on the experience of previous years as it was available prior to committees’ evidence sessions with cabinet secretaries and ministers. However, given the limited engagement of committees on climate change scrutiny of the Draft Budget 2017-18 it is unlikely that the document was given significant consideration beyond the ECCLR Committee.

*Approach to future scrutiny of climate change expenditure*

The Committee has committed to reflect upon the progress made by all committees following the 2017-18 budget process with a view to informing future engagement and proposals for climate change scrutiny ahead of the 2018-19 budget. In our recent report on the Scottish Government’s draft Climate Change Plan (RPP3), the Committee stated it would welcome further discussion with the Scottish Government on issues of the content and timing of publication of the annual summary monitoring reports on climate change mitigation measures and the alignment of these with other key documents such as the draft budget. The Committee hopes that a more joined-up approach between these two important documents can help dovetail scrutiny to ensure that this is a key part of climate change monitoring going forward. To this end the Committee intends to liaise with relevant parliamentary committees on the issue of parliamentary scrutiny of climate change adaptation and mitigation and climate change spending before considering how the approach to mainstreaming climate change scrutiny might best be incorporated into the 2018-19 budget process. The Committee looks forward to further discussion with you on this.
The Budget Review Process - outcomes based scrutiny

The Committee has also considered the Budget Process Review Group’s consultation on how effective the current approach to outcomes-based scrutiny is.

For the 2017-18 Draft Budget, the Committee focused its scrutiny on the work of two public bodies and a Government agency within its remit, namely: the Scottish Environment Protection Agency (SEPA), Scottish Natural Heritage (SNH) and Marine Scotland, using an outcomes-based approach. The Committee focused on how SEPA, SNH and Marine Scotland have each contributed to the Scottish Government’s national outcomes from 2011 until 2016 and whether the success in meeting these objectives may have been affected by:

- a declining budget over a number of years;
- challenges faced in maintaining existing functions; and
- the need to respond to changing priorities.

Aware that the draft budget would be delayed, the Committee took evidence ahead of its introduction from SEPA, SNH and Marine Scotland. The Committee looked at outcomes achieved to date and looked forward to the 2017-18 spending period.

The obvious advantage of this approach is that evidence can be considered outwith the budget process itself. However, when using the national performance framework as a baseline for outcomes, it was not always clear how the performance of the three organisations were directly linked to the national indicators they were associated with. While perhaps outwith the remit of the Group’s work, the Committee would like to see a more quantifiable link between the national performance framework and the work of public bodies.

The Committee welcomes the work of the Budget Process Review Group in its fundamental review of budget scrutiny. It is clear that there is scope for improvement in shaping a process that addresses both the historic scrutiny issues and the additional responsibilities added by successive Scotland Acts. The Committee welcomes an approach that is strategic and focuses on early scrutiny, to influence and inform the budget, once published.

The Committee looks forward to receiving its final report.

Yours sincerely,

Graeme Dey MSP
Convener
Environment, Climate Change and Land Reform Committee

Cc: Chair of the Budget Process Review Group
Written Response from Equalities and Human Rights Committee

1. How effective is the existing budget process?

Interrogating a cross-cutting budget area
The EHRiC’s budget scrutiny has tended to focus on specific subject areas, or equality area, in terms of budget scrutiny. For example, last year we looked at the position of disabled people and BSL users at Scottish Universities¹ and how spending and policy decisions in the HE sector impact on equalities.

In terms of how major parts of the Scottish budget are prioritised and spent, it makes it inherently difficult for the EHRiC to monitor the effective delivery and promotion of equalities in a traditional „subject committee-ministerial portfolio“ sense as there is simply not enough time in the budget process for EHRiC to assess the wider equality impact of the entire budget.

While the Scottish Government has had a dedicated equality budget of about £20m per annum since fiscal year 2008/09², the reality is that the delivery of equalities and human rights priorities is dependent on the impact of a wide section of budgetary spending on major policy areas such as health and social care, education and skills, social security, enterprise and employment, local government and housing, justice etc.

Over the last Session of the Parliament the Scottish Government built on the budget recommendations of our predecessor Committee, the Equal Opportunities Committee, to develop the Equality Budget Statement (EBS) as part of the annual budget process. This was a very welcome development in terms of budgetary policy as it helps to provide a focus for the equalities priorities the Scottish Government wishes to deliver.

This being said, however, to date the EBS has focuses on the positive equality impacts of budgetary decisions and doesn’t necessarily highlight where there

¹ EHRiC 1 Report 2017: Disabilities and Universities:
² SPICe Equalities Subject Briefing (April 2017), page 21:
may be negative impacts on delivering on equalities as a result of the budget. There is a need to build on the EBS to develop it as a more balanced assessment tool in term of the overall equalities impacts of both individual budgets, and longer term multi-year budget trends.

Work being undertaken by groups the Scottish Women’s Budget Group (SWEB) have sought to map the potential negative impacts of various budget decisions. For example, in their response to the Government on the Scottish Draft Budget and Equality Budget Statement 2016-17, SWEB noted the potential negative gender impact of reduction in the local government funding settlement in terms of a disconnect in funding to tackle domestic violence at national and local level. SWEB stated that “even a cursory attempt to assess gender impact on the allocated spend and cuts in this budget would have revealed the negative outcomes for women”. Assessing the present draft budget process they stated—

“There are clear and significant limitations to the Draft Budget and Spending Plans. Financially, the severe cuts to local government spending will have significant negative effects on women. Conceptually, the approach of the Scottish Government is limited to a focus on mitigation, important as that is, rather than a more creative use of available powers and resources.”

Need to assess long term outcomes

The Scottish Government has set out an ambitious set of National Outcomes in terms of the delivery of a fair and equal society in Scotland, and this is to be commended. In our view the continuing pressure on public spending into the future means there will be an increasing need to more accurately assess the long term equality outcomes of budgetary decision making. Failure to clearly assess such outcomes could have serious implications for public spending into the future.

For example, the EHRiC is currently involved in a piece of scoping work around the bullying and harassment of children and young people in schools. The Committee will shortly decide how it wishes to progress this work so as to make recommendations to the Parliament and Government in due course. As a result, I cannot draw any explicit conclusions at this stage in relation to this work.

What is clear from the information and evidence the EHRiC has collated so far is the importance of an area such as education spending has on the achievement of a positive outcomes in terms of equalities in society. As was highlighted in the work of the Christie Commission in 2011, spending on preventative action in the short to medium term can deliver both positive social and fiscal long term outcomes for society.

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4 Scotland Performs: http://www.gov.scot/About/Performance/scotPerforms/outcomes/inequalities
Applying this principle to the work we are currently undertaking on bullying, if we can counter the development of prejudice-based negative social attitude amongst young children through our education system, then positive equalities outcomes for Scottish society are far more likely to be achieved in the long run. So by reducing the incidence of bullying and harassment, there would be an increase educational attainment and economic productivity, or a reduction in the need for mental health support. Indeed, the Summary of Actions for the recently published Mental Health Strategy 2017-2027 recognises the need for prevention and early intervention in the education system as a key objective. Quantifying the benefits such preventative policies can achieve, in budgetary terms, needs to be progressed.

*Mapping medium to long term equality impacts of current budgetary decisions* A clear example of a past failure of the budgetary system in this respect is the current position faced by the Scottish public sector in terms of financial settlements from judicial ruling on historic equal pay claims. Had the concept of preventative spending existed in previous years, such as in the context of effectively assessing the possible risks of treating male and female employees differently in pay terms based largely on attitudes to their gender, then substantial sums of public funds which are currently directed to settling pay claims would otherwise have been saved. While this is a historic case, it raises important questions around the delivery of Scotland’s current National Outcomes in equalities and how we assess long term negative budgetary impacts.

As we highlighted to the Parliament in our report on Disabilities and Universities in January 2017, we are concerned the failure to identify and address the long term equality consequences of spending and policy decisions by Higher Education Institutions could have serious fiscal repercussions in future—

“We recommend that a more coherent and transparent link be made between HEIs equality commitments and their Outcome Agreements with the Scottish Funding Council. In reflecting equality commitments in Outcome Agreements, universities should seek to more clearly link the delivery of right-based equality policies to the Scottish Government’s preventative spending agenda by seeking to remove barriers which prevent disabled people, BSL users and others with protected characteristics from achieving paid employment. Such action could also serve to mitigate the chances of future penalties for present failures, such as future compensation payments by universities to individuals whose statutory rights they did not meet in terms of equal treatment and discrimination”.

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Indeed, during that inquiry, the EHRiC received evidence from a disabled student currently in the process of considering legal action against the Scottish university she is studying at for the impact of its failure to adequately meet and protect her statutory equality rights. This attitude to perceived failings to meet statutory equality rights was reflected in other submissions received by the Committee.

From a budgetary standpoint this echoes the experience with historic equal pay claims and may shed light on a trend where individuals are more able and ready to seek legal redress for failure to protect their statutory equality rights. The future budgetary implications of these examples, if say replicated across all the current nine protected characteristics, could be very substantial, not only in terms of making demands on public expenditure, but in the wider impact of loss of productivity in the workforce and increasing the risk of people being left dependent on support from the state.

The fundamental question these cases poses for the budgetary framework is how to move from the position of merely equality-proofing the Scottish budget from year to year, to developing models capable of mapping the medium and long term equality impacts of current budgetary decisions and how such considerations inform policy development by Government and the public sector.

This, in effect, means developing models of equality-centred budgeting. This is a theme the EHRiC will be pursuing in our budget scrutiny work throughout this Session.

2. What is the impact of the Fiscal Framework?

The implication of the Scottish Fiscal Framework for equalities and human rights policy is unclear. The EHRiC has not undertaken any substantial work to date which would meaningfully allow us to contribute to the debate on this issue.

However, it is worth noting that the Framework Agreement between the UK and Scottish governments was agreed before the UK’s decision to withdraw from the European Union in June 2016. In the wake of the work of the Smith Commission following the 2014 Scottish Independence Referendum, a central principle which evolved in the Fiscal Framework was the “No Detriment concept”—

“The Smith Commission stated that there should be no detriment as a result of UK government or Scottish Government policy decisions postdevolution”

Submission from S Angell to EHRiC Committee, 1st Report 2017 Disabilities and University: http://www.parliament.scot/S5_Equal_Opps/General%20Documents/053_Sarah_Angell.pdf
10 The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government’s fiscal framework, February 2016, paragraph 44:
While the primary focus of the No Detriment concept was centred on potential differing policy decisions on tax and social security by the respective governments, as the example of historic equal pay claims shows, failure to adequately integrate equalities into decisions on spending policies can have serious long term budgetary implications.

Key parts of Scotland’s equalities and human rights landscape, such as in the field of workers’ rights, is derived from EU law as a result of our current position as an EU Member State.

As the UK exits the EU, and decisions are made by the UK Government in terms of the Great Repeal Bill’s transposition of the EU’s legislative framework into domestic UK law, there may be a need to assess the potential future fiscal implications for Scotland’s budget based on policy decisions the UK Government may take in relation to how such equalities and human rights legislation may operate in the UK post-2019.

3. How effective is the current approach to Multi-Year Budgeting?

The EHRIC is currently undertaking a rolling piece work on the impact of the UK’s withdrawal from the EU on equalities and human rights in Scotland. One issue which is emerging is the financial exposure of Scotland’s third and voluntary sector community with the future loss of EU funding streams.

The third and voluntary sector plays a vital role in the delivery and achievement of various equalities and human rights priorities in Scottish society. This fact was acknowledged by the First Minister as recently as February 2017 in her speech to The Gathering of Scottish charities in Glasgow. Many third sector and voluntary groups exist on a year-to-year budget allocations from Scottish or UK public funds, often on the basis of achieving match funding from an EU source. This funding model has in the view of many greatly hampered the ability of the third and voluntary sector to plan and delivery in the long term.

In early 2017, the Scottish Government announced it was moving to a threeyear rolling funding stream for third sector organisations involved in equalities and prevention of violence against women and girls. This is a very welcome development. Scotland has a major reliance on third sector and voluntary groups to promote and deliver equalities and human rights objectives. They also play a vital role as expert sources in advising


Government and helping to shape legislation and policy development across a wide range of areas from health to education to criminal justice.

In light of this there may be a pressing need to ensure multi-year planning across the entire Scottish budget spend adequately includes provision for the delivery of equalities and human rights objectives, and not simply limit such planning to the dedicated equalities budget stream of approximately £20m per annum.

4. How effective is the current approach to Medium-Term Financial Planning?

Owing to the defuse nature of equalities and human rights in policy portfolio terms, it is difficult to say with any certainty as to how successful the current approach to medium-term financial planning is in the context of the remit of the EHRiC.

The recent announcement of three-year funding streams for various equality groups by the Scottish Government is welcome. However, such a development coming many years after the development of multi-year budget funding for „mainstream“ policy areas like health and education, may suggest that equalities policy is still seen in fiscal terms, if not as a tick box exercise, then as perhaps a desirable add-on to medium-term budget planning.

However, as some of the examples we have highlighted earlier would suggest, equalities policy needs to been seen as a central consideration in medium-term financial planning so as to deliver economic benefit for individuals and businesses, increase workplace productivity and ensure value for public money.

5. How effective is the current approach to outcome-based scrutiny?

As we alluded to earlier, the difficulty in effectively trying measure the outcomes-based success of equalities objectives is the cross-policy portfolio nature involved. Nevertheless, the development of the Equality Budget Statement in recent years provides a starting point from which to address this problem.

An area requiring more consideration in terms of devolved budgetary policy development is in the field of human rights. Just as we have highlighted the need for the development of equality-centred budgeting, so we must also look to begin developing models of human rights-centred budgeting.

In our report on the 2017/18 Draft Budget we noted the following—

“Making human rights a core part of our remit has placed greater focus on this budget area. From our consideration of human rights issues thus
far we concur with the view that it is more important than ever to ensure human rights are protected, not least because of the potential impact of Brexit on such issues as community cohesion. Scrutinising the budgetary aspects of human rights raises similar issues as with equalities because of its cross-cutting nature. We see this as an area where we could work jointly with the Scottish Government with a view to providing greater transparency.”

Recent legal and judicial developments, coupled with a growing sense of public awareness of individual and collective-groups rights, thanks in part to modern social media, is giving rise to a trend where people and groups are more likely to seek legal and monetary corrective action if they view their rights have been breached by the state. As we have seen from recent examples, this can have serious ramifications for budgetary planning and spending if not addressed early enough and with sufficient rigor.

As a result, and especially as the Brexit process moves forward, it will become increasingly important for the Scottish Government and public sector to set clear human right policy objectives, identify the outcomes which will deliver those objectives, and then tailor budget development and spending policy to deliver those objectives.

This approach will also help in developing a clearer line of fiscal accountability in terms of allowing the Parliament and its committees to scrutinise the effectiveness of Scottish Government policy in this area and assess how clearly budgetary policy was aligned to achieve the desired outcomes.

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Written Response from Fraser of Allander Institute

Introduction
What is parliamentary budget scrutiny? On one level it can be defined very narrowly, in terms of the way the legislature explores the context and rationale for the decisions laid out by the government in the budget document itself; in doing so, the process helps inform the public about the choices and trade-offs being made, and hence leads to a more informed electorate. But parliamentary scrutiny can also go beyond merely the understanding of the rationale for the budget decisions themselves, and include the legislature’s ability to amend aspects of the budget document directly. And budget scrutiny can be defined more widely still once we recognise that it can include not only scrutiny of a specific budget document at a specific point in time, but can also encompass a continuous process of challenge and questioning of the government’s financial planning activities more broadly.

The budget process in this sense refers to the arrangements by which the parliament scrutinises the government’s financial plans. These budget process arrangements can include timetabling issues (which documents are presented when?), information provision (what level of data is needed on spending plans, tax forecasts, historic spending trends, etc.?) and formal parliamentary rules determining how a budget is formally analysed and evaluated by Committees and approved by parliament.

In determining an effective parliamentary budget process, a balance must be struck between a number of different trade-offs:

- The inevitable calls for more detailed information – on past spending trends or factors influencing revenue forecasts for example – and the capacity of government and parliament to produce and use that information cost effectively
- The timing constraints imposed by various ‘fixed’ elements – such as the date of the UK budget, or the degree of prior notice required by tax agencies of changes to taxation rules – against the requirement to allow sufficient parliamentary time for budget scrutiny
- A process that meets ‘technical’ objectives of scrutiny whilst at the same time leaves sufficient room for the politics
- The recognition that the type of information and data required is likely to differ across different sectors of civic society and the public more generally
- The balance to be struck between parliament’s ability to amend budget proposals, without significantly curtailing the role of government in determining government policy.

In the context of these trade-offs, we offer some thoughts on the questions posed by the Review Group’s Interim Report.

Theme 1: How effective is the existing budget process?
The UK Government’s announcement that its Budget will from now on be published in Autumn suggests that, on balance, it makes sense for the Scottish budget to
'follow on' as soon as possible afterwards (given the importance of UK Government budget decisions on the Scottish budget).

However, given the extent to which this will curtail the time available for parliamentary scrutiny of the Scottish budget, it is important that the Parliament adopts a full-year approach to scrutiny. We have suggested throughout this submission some of the ways in which this full-year approach to scrutiny could be enabled. This may include for example the publication and scrutiny of a report on aspects of the Fiscal Framework earlier in the Autumn; separate release of a document outlining the government’s medium-term financial strategy for parliamentary debate; and ongoing scrutiny of the contribution of public sector organisations more generally to the achievement of the Government’s outcome aspirations.

In terms of the Draft Budget document itself, recent years have seen a number of improvements to budget documentation in response to parliamentary scrutiny. These include for example the presentation of Level 4 spending figures, and the presentation of draft as well as final budget figures for the previous financial year.

Nonetheless, several aspects of budget documentation remain confusing and overly complex. Improvements should include:

- The Budget document needs to be clearer on the split between factual information/data and policy/political interpretation. At the moment it is a muddle between a policy document and the authoritative source of budget data.
- Rather than helping to clarify the complexities of public sector budgets, the current document often only adds to the confusion. Different chapters focus on different definitions of spending (e.g. fiscal DEL, total DEL or TME) for no apparent reason. Some settlements – e.g. the exact settlement for local government – aren’t even in the budget at all but published elsewhere. Greater consistency is needed.
- A consistent time series of spending by portfolio should be published from – at the very least – the start of the last spending review (and ideally longer). A balance has to be struck between the flexibility to develop new portfolios as need arises over time, with the need to be able to compare how the balance of spending allocations has evolved.
- The practice of apportioning monies to one portfolio but that money appearing elsewhere in the actual accounts needs to be clarified. This has particularly been an issue in relation to local government budgets in recent years.

Greater transparency is also required in relation to budget over- and under- spends from previous years, as well as the balance of the NDRI ‘pool’ and the Scotland Reserve. This information gains particular importance given the operation of the Fiscal Framework and the reconciliation process, which is discussed further in the next section.

The question as to how much ability the parliament should have to influence or amend the Draft Budget is an important one, but one for which there is no easy
answer. As outlined in the Budget Review Group’s Interim Report, the intention of the FIAG (Financial Issues Advisory Group) principles was that the Scottish parliamentary process would involve ‘much more scrutiny’ than at Westminster. To-date, the parliament has had relatively little influence in amending budget proposals, and one can debate the extent to which this is because of constraints implicit in the FIAG principles, the Committee structure, or because of the political culture that exists in the UK more generally.

We are open minded about the degree of influence the parliament should have on the budget proposals directly; indeed this is a question for parliament and civic Scotland more broadly. However, if the aspiration is for parliament to be able to make amendments to the budget, a useful approach – warranting further investigation – would be Joachim Wehner’s suggestion to follow a ‘one-stage’ budget. Rather than a ‘draft’ and final budget, the budget would be tabled, scrutinised by committees and debated in plenary, with the possibility for the parliament to table and adopt amendments. The one-stage approach would also help address the curtailed timetable for budget scrutiny. However, careful consideration of the ‘checks and balances’ that should be built into the process by which amendments would be required, enabling a balance to be struck between parliamentary influence without significantly curtailing the role of government in determining government policy.

Public engagement is an important but extremely difficult aspect of the parliament’s budget process. Throughout the world there are a number of good examples of participatory budgeting and facilitation of ‘citizens budgets’, about which the Review Group has taken some evidence. And the Scottish Government itself is participating the Open Government Partnership, with an Action Plan which includes the goal of increasing the government’s financial transparency. As part of its budget scrutiny, parliament has a role to play in holding the government to account about how the public and civic society has been engaged in developing the budget.

But in addition to Government’s role in engaging the public in developing the budget, it is important for the parliament to consider how it engages the public in scrutinising the budget. SPICe plays an important and valued role in translating some of the complex issues into a more accessible format (as do a variety of other organisations, such as Audit Scotland). And Committee debates and reports in turn inform media coverage of issues arising in budget scrutiny. There are likely to be a number of ways in which the parliament could enhance public engagement in the budget process, whether in terms of information provision, raising awareness of the parliament’s role more generally (through its existing social media presence for example), or through instigating citizens-budget type events. The options should be explored further with appropriate stakeholders.

**Theme 2: What is the impact of the Fiscal Framework?**
The Fiscal Framework sets out the rules and arrangements that are required to operationalise the new tax and welfare powers that are being devolved to the Scottish Parliament.

Under the Fiscal Framework – and as described in the Group’s Interim Report – the determination of the Scottish Government’s revenue budget will become particularly complex. The budget in any given forthcoming financial year will depend upon:

- The Barnett-Formula determined block grant from Westminster;
- The ‘adjustments’ to this block grant to reflect the counterfactual estimate of the revenues foregone by the UK Government as a result of having transferred each tax to Westminster. These block grant adjustments are themselves determined by forecasts for the revenues to be raised from the ‘comparable’ taxes in rUK, which are made by the Office for Budget Responsibility (OBR)\(^1\).
- The revenue forecasts for the Scottish taxes, which will be made by the Scottish Fiscal Commission (SFC)
- The Scottish Government’s planned level of borrowing to fund capital expenditure.

Further complexity will emerge as outturn data becomes available. Forecasts will need to be reconciled with outturn data. The outturn for Scottish income tax revenue for example will need to be reconciled with the forecast, whilst the outturn for rUK income tax revenues (which determines the BGA for income tax) will also need to be reconciled with the forecast. These reconciliations could result in the Scottish budget in a given year being adjusted upwards or downwards – which in turn could have implications for the use of the Scotland Reserve, or for revenue borrowing.

Given the complexity implied by the Fiscal Framework – and the fact that different elements of the Framework are determined by different public bodies – it is essential that the Scottish budget sets out clearly the various elements.

- For each tax, the five-year revenue forecast made by the SFC on the basis of the Government’s proposed policy;
- For each tax, the forecast BGA, made on the basis of the OBR’s rUK forecast;
- How these elements combine with the block grant to determine the forecast of the resource available to the Scottish Government.

Where revenue forecasts have changed since the previous release (as they are bound to do), it will be important that the analysis sets out the factors determining the change – whether this is as a result of policy change, more recent outturn data, changes to forecasting methodology or changes to other assumptions.

It is also important that the budget sets out the revenue effect of any policy change. For example, how much additional revenue is raised as a result of freezing a particular tax threshold? However, this raises at least a couple of questions. First,

\(^1\) In due course, the Budget will also depend upon forecasts for devolved social security spending in Scotland (made by the SFC) combined with forecasts for the BGA for social security powers (determined by OBR forecasts for rUK spending).
what should be the baseline against which a policy change is assessed? In some cases this will be obvious (a rise in a tax rate for example), but in the case of changes to thresholds is sometimes less obvious – is the baseline a cash freeze, a real terms freeze (in which case which inflation measure is used), or simply the UK Government’s policy? The Government should be clear and consistent in how the baseline is defined. Second, whilst the SFC has responsibility for forecasting Scottish tax revenues in total, it may need to be the case that the estimate of the revenue effects of policy change is made by the Scottish Government, potentially conflating two slightly different forecasts.

It will also be important to present information on revenue outturn data, and how this relates to previous forecasts. Outturn data can include both ‘interim’ outturn figures (e.g. monthly outturn figures) and ‘final’ outturn figures, which are available sometime after the end of the financial year in question. Understanding how outturn data differs from forecast – and its implication for subsequent budgets, and the use of borrowing powers and the Scotland Reserve – will be critical.

Finally, it will be important to understand what scope the Scottish Government has at any point to manage budget volatility. Thus publication of data on the level of resource in the Scotland Reserve, outstanding borrowing commitments and future borrowing plans, is also key.

Given the significant level and complexity of data required for scrutiny in relation to the Fiscal Framework – and the potentially more limited time available for parliamentary scrutiny under the new timetable – there is a strong case for publishing some of this material in a separate report on the Fiscal Framework (as distinct from the budget document itself). This report could for example be published in early Autumn, and focuss on the comparison of previous years’ forecasts with the latest available outturn data and in-year projections. This would allow the Finance Committee to scrutinise these ‘backward-looking’ elements of the forecasts and potential implications. The Budget document itself would then present the latest revenue and BGA forecasts in the light of this analysis.

Table 1 below provides a preliminary suggestion of the type of information that could be included in both the Budget document and the Fiscal Framework report.

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<th>Budget document</th>
<th>Fiscal framework report</th>
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<td>5-year forecast for each tax</td>
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Theme 3: How effective is the current approach to Multi-Year Budgeting?

In both 2016/17 and 2017/18, single year budgets were published. A single year budget makes it impossible to gauge the government’s medium term plans or priorities – particularly in areas such as local government where there are important elections this May.

More generally, it can create significant problems for service providers, particularly smaller and/or local organisations, which can undermine the quality and continuity of provision. It makes planning more difficult (particularly with long-term preventative spending) and retaining skilled/motivated staff more challenging. It creates uncertainty for both the providers and those using a service and leads to inefficiencies from renegotiating contracts on a short term basis. It is vital that we return to a rolling multi-year framework.

With UK Spending Reviews typically published shortly after a General Election and the staggering of UK and Scottish elections on a fixed term basis now agreed, embedding multi-year budgets into the parliamentary calendar should be relatively straightforward.

Parliamentary Subject Committees should be responsible for scrutinising multi-year budgets as pertaining to their own portfolios, with the Finance Committee providing a holistic role in scrutinising the whole.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

Key parts of the budget are subject to long-term/fixed spending commitments. Some are policy related (e.g. demographic pressures, pay progression), whilst others are legal commitments (e.g. pre-signed contracts, statutory obligations etc). But very little information is published on these elements in an accessible form.

Greater transparency over what these are, their trajectory, and their scale is needed.
For example, existing PPP/PFI and NPD commitments make up a significant proportion of the Scottish budget – with repayments of £1.2bn per annum over the course of this parliament. But the allocation is not uniform. For example, PPP payments now make up a relatively large chunk of the education budget each year (around 10%).

We never know therefore, whether or not an increase in a particular portfolio implies genuine new resource or is simply covering rising pre-commitments.

Greater transparency around such issues will also help improve our understanding of the medium to long-term sustainability of public services. We know that demand for public services continues to increase, but we don’t yet have a regular assessment of the implications of this for future budgets. We also only have limited knowledge of long-term liabilities facing the public sector in Scotland.

Whilst it is unreasonable to expect government to set out detailed and specific long-term forecasts, a report setting out different scenarios and the direction of travel would be welcome.

A medium-term financial plan should look forward over a period of at least 5-10 years. It should set out in broad terms the known fiscal commitments and fiscal pressures that will be faced in that time, together with indicative spending levels by portfolio. The medium-term financial plan can set out one or more likely scenarios for the evolution of revenues, and what these would imply for the Government’s spending budget. Consistent with the discussion about spending reviews in the Group’s Interim Report, a Medium Term Financial Plan can also include some more selective elements, for example a particular report could focus on options for managing medium-term pressures in relation to social care, or review the resourcing of local government.

Some, including Joachim Wehner in his report to the Budget Review Group, make a convincing case that parliament should have a role in debating the broad direction of fiscal policy on an annual basis – as part of a ‘pre-budget report’ – in order to build parliamentary consensus about trade-offs and priorities. However, given capacity constraints facing Government and Parliament, and given that medium-term fiscal priorities are likely to evolve relatively slowly, there is a case for saying that a medium term financial plan produced and debated every 2-3 years would be informative for public and political debate. This could be published in Spring before being debated by Committees and then in Chamber prior to the summer recess.

**Theme 5: How effective is the current approach to outcomes-based scrutiny?**

Given that the ultimate purpose of public spending (and policy intervention more generally) is to achieve particular outcomes, in principle it is desirable to have a clearer link between budget spending lines and the outcomes that that spending is intended to deliver.
However, it is also the case – as articulated by Joachim Wehner in his report for the Budget Review Group – that it is in generally not straightforward to link specific spending activities to particular outcomes, given the multitude of factors which influence most outcome indicators (not to mention the lags between intervention and outcome).

A balance therefore needs to be struck between the current budget documentation – which contains little if any analysis of the links between spending and outcomes – and a possibly unachievable aspiration to estimate the specific contribution of each and every spending line to a particular outcome indicator or target.

One possible way to strike this balance is to expect that budget documentation is at least more explicit about the logic chain by which particular activities are expected to influence specific outcomes – whilst recognising that any attempt to formally appropriate spending activities to achievement of outcomes should be the focus of evaluative work.

In terms of public bodies more generally, there is a case for saying that parliament could play a stronger role in challenging public bodies to demonstrate how they are contributing to the delivery of the NPF and outcome targets contained therein. This could be undertaken by subject committees for public bodies working in areas relevant to them.
Written Response from Health and Sport Committee

Effectiveness of the existing budget process

The Review Group report poses a series of questions regarding what the core objective of budget scrutiny should be, how the effectiveness of existing parliamentary scrutiny of the draft budget can be improved and whether the Parliament should pursue a full-year approach to budget scrutiny.

As a Committee we wish to highlight the fact we have adopted a full-year approach to the budget process. This has involved building an element of budget scrutiny into all the work we have conducted so far. As detailed in our 2nd report, 2016 (Session 5) Health and Social Care Integration Budgets, the Health and Sport Committee agreed at the start of the Parliamentary session to move away from the traditional approach of considering the Scottish Government’s proposals for its budget at a single point in the year, following the draft budget publication.

In part, this approach reflects the fact that the draft budget contains limited detail on how the budget allocated to health will be spent, given that the majority is allocated to health boards who then decide how to spend their own budget. We have sought to remove the direct link between the Scottish Government’s draft budget and its budget scrutiny with a view to using evidence gathered throughout the year to influence the content of future draft budgets and the relative priorities given to the health elements.

As a Committee we have conducted specific work on the scrutiny of Health and Social Care Partnerships (HSCPs). Our review of the budget setting process for HSCPs in 2016-17 not only sought to assess the approach taken to date but focused on identifying and recommending changes to the budget setting process for future years. As such, our approach has been forward-looking rather than a one-off exercise at a single point in the year.

We believe that this approach has worked well and is one we wish to continue to adopt, both conducting budget scrutiny to assess performance to date but also to influence the approach and information provided in future years.
As well as conducting specific work on the scrutiny of HSCPs our full-year approach to budget scrutiny has resulted in several recommendations on financial issues to the Scottish Government on some of the topics it has considered to date.

We have highlighted to the Scottish Government the importance of being able to determine spend on specific policy areas to be able to assess the effectiveness of spending. This issue was pursued in the Committee’s work on Delayed Discharges.

Our full-year approach to budget scrutiny has resulted in the Committee considering the issue of resource allocation in relation to the different aspects of the health care system. We have asked the Scottish Government to indicate when it would expect to see its ambitions to increase the percentage of overall central health spending in primary care reflected in the Scottish Government’s budget.

Our Strategic Plan and Vision 2016-2021 states that in relation to its overriding aim to improve the health of the people of Scotland we will test all activity it scrutinises against several aspects including long term cost effectiveness and efficiency. We have adopted this approach to scrutinising other public bodies including organisations like the Scottish Health Council and assessing these organisations in relation to their effectiveness and efficiency.

**Effectiveness of the current approach to outcome-based scrutiny**

The Review Group report asks how effective the emphasis on prioritisation and value for money is in delivering a more outcome-based approach and how it could be improved. The report also asks about the role of public bodies in supporting a more outcomes-based approach to financial scrutiny.

Another set of questions posed by the Review Group report concern what information the Scottish Government should provide in its budget documents to show the links between its budget allocations and the NPF. What level of performance information Scotland’s public bodies should publish against the NPF and what should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes.

As a Committee we believe that public bodies play a key role in supporting a more outcomes-based approach to financial scrutiny and the work the Committee has conducted in pursing this approach.

We have issued a survey to all HSCPs to gather information on their initial stages of operation and to gain a useful baseline for future scrutiny. A specific focus of this work was consideration of the financial and performance reporting required by HSCPs.

We explored with HSCPs the requirement to provide financial and performance reports to the Scottish Government from this financial year. HSCPs are required to contribute towards nine ‘National health and wellbeing outcomes’ set by the Scottish Government. In addition, there are 23 ‘core integration indicators’ set out by the Scottish Government to support these outcomes.
We have welcomed and supported the requirement made by the Scottish Government that HSCPs must link budgets to the performance framework.

In relation to the question posed by the review group regarding the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes, several relevant points were raised in our report on the HSCPs.

Our report highlighted that whilst there was a requirement for HSCPs to link budgets to a performance framework we heard concerns from HSCPs there were challenges in achieving this linkage between budgets and the performance framework. Our report on HSCP raised concerns that there appears to be a lack of awareness and understanding of the need for such reporting by HSCPs.

As we also detailed in our HSCP report we recognise there are challenges associated with measuring and collating this information. However, we believe there is real value in this work being conducted to enable an assessment to be made of the effectiveness of spending to deliver on specific outcomes and a clear indication of the prioritisation of spending. We have recommended to the Scottish Government it provide HSCPs with clear parameters in which to measure and quantify HSCP budgets against specific outcomes.

We have also indicated that we will be monitoring closely the extent to which HSCPs annual reports provide this information, which we consider is vital to understanding the impact of budget on outcomes. The Committee has requested a report from the Scottish Government on the compliance by HSCPs, together with detail indicating the inter-relation between spend and the delivery of outcomes and the desired transformational change.

In relation to the questions the Review Group poses on linking budget allocations and the NPF we also wish to highlight the work of our predecessor Committee. It conducted an annual survey to NHS boards which asked boards to provide information on their performance and expenditure on specific National Performance Framework indicators. Further information is detailed in our predecessors 13th Report, 2015 (Session 4): NHS boards budget scrutiny 2015-16. Whilst the new HSCPs are being asked to produce information on performance and expenditure the measures used are not directly taken from the NPF. They are a separate group of indicators developed in partnership with NHSScotland, COSLA and the third and independent sectors. We consider there to be merit in there being clearer links made between these performance indicators and the NPF. Both this Committee and its predecessor have highlighted the need for better information linking budgets to identified priorities and outcomes.

I hope our contribution proves useful for your deliberations on the budget process. We look forward to learning the outcome of the Review Group’s work.

Yours sincerely

Neil Findlay MSP
Convener of the Health and Sport Committee
Budget Process Review Group – Interim Report

About ICAS

1. The following submission has been prepared by the ICAS Tax Board. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members. The Institute of Chartered Accountants of Scotland (‘ICAS’) is the world’s oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

General comments

2. ICAS is grateful for the opportunity to contribute to the Budget Process Review Group (BPRG), as requested in the Interim Report issued on 10 March 2017.

3. We have not answered all the questions in the BPRG interim report but rather have focused on tax matters, which is where the expertise of the Tax Board and the Scottish Taxes Committee rests. We have considered the question ‘how effective is the existing budget process’ regarding opportunities to address tax concerns and to scrutinise any tax proposals. Much of the interim report is expenditure focused.

4. With approximately half our members based in Scotland, we have had extensive dealings with the new devolved tax powers. ICAS has contributed the experience of its members and their technical expertise in the development and implementation of the two existing devolved taxes, Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT), in the development of the proposed Air Departure Tax, and the establishment of the tax authority Revenue Scotland. ICAS has also contributed to the development of both Scottish Rate of Income Tax and the Scotland Act 2016 income tax rates and bands.

5. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

6. In our evidence to the ‘Scottish Approach to Taxation’ inquiry, we called for a process that allows for regular maintenance of the taxes, and we believe this should be considered as part of the budget process, including formalising a regular timetable and process for stakeholders to give input on any operational and policy concerns with the tax legislation.

How effective is the existing budget process?

7. Over the past few years we have come across several tax issues that we have wanted to raise with policy makers in the Scottish Government and with the Scottish Parliament’s Finance and Constitution Committee but there has been no obvious process or timetable in which to do so. This has been understandable because, to date, the budget process has been expenditure focused. At present, tax matters need to be raised on an adhoc basis.
8. In the UK, the time for raising such points is a part of the annual budget cycle. For instance, based on the current UK budget timetable, a significant element of our work on tax law includes:

a) making autumn statement representations in which we identify areas of tax policy and associated law where we believe changes would be beneficial (generally from an operational perspective).

b) commenting on the draft legislation that is published in the Finance Bill (in the winter), with a view to whether the proposed legislation is as good as it can be in meeting its stated objectives and will be efficient to operate; and

c) contributing to the formulation of policy by responding to consultative documents issued by HMRC and HMT about potential tax changes (summer).

9. There is no such cycle in Scotland in relation to the tax powers or tax legislation. With the devolution and implementation of the tax powers in the Scotland Act 2012, and then in the Scotland Act 2016, we believe it is important to now consider the tax side of the budget process.

10. It should be noted that from a tax perspective an annual budget is needed in the UK because income tax is an annual tax – it must be enacted every year. In Scotland, there needs to be an annual vote on the income tax rates and bands. However, beyond this an annual tax process is not essential but it may be desirable and this is discussed further in paragraphs 13-16 below.

11. The type of tax matters that should be catered for in the new budgetary process are as follows:

a. Politicians may wish to review tax rates and thresholds across the devolved taxes and this may be beyond simply inflationary measures. There is already a process for implementing rate changes to LBTT and SLfT; however, there is no regular timing mechanism attached to this. (RSTPA 2014, section 108, lies in with LBTT(A) 2013, s 68 and LfT(S)A 2014 s 41 and the latter two sections provide for rates to be introduced by statutory instrument using a provisional affirmative procedure, so that new rates can be implemented straight away. The s108 allows for repayment if the statutory instrument is not adopted. This covers rates and bands or, say, definitions in landfill but it does not cover whole new parts of a tax such as the LBTT Additional Dwelling Supplement).

b. There is a need for ‘care and maintenance’ measures in the existing tax law so that if stakeholders such as Revenue Scotland find parts of the legislation do not work as intended, or the legislation does not work as taxpayers may wish from a commercial perspective, there is an opportunity to revisit the law. For example, taxpayers have questioned the LBTT legislation for in specie transfers for pensions, or LBTT and group restructuring. Such questions arise because there are differences in the law and its interpretation between the Scottish and rest of UK jurisdictions, which may be intended but nevertheless it may also be helpful for policy makers to reconsider whether this is still the desired outcome. A process in needed in which to address such matters.

c. If new taxes are being considered, such as the LBTT Additional Dwelling Supplement, there should be an established process within which to operate that allows for proper consultation and scrutiny. Such a process should also tie in with an agreed approach to taxation (as being considered by the Finance and Constitution Committee at present). The scrutiny should also consider whether new proposed measures tie into the overall tax proposals over a longer-term plan. As we noted in our evidence to the Scottish Approach to Taxation, ICAS recommends that there should be a longer-term plan, perhaps a five-year plan, and an indication of the basis on which stakeholders are expected to participate in the Scottish approach to taxation.

12. Consideration needs to be given to whether the above tax matters should be addressed in an annual process or whether a different process or timescale would be more helpful.
13. On the one hand, an annual finance bill sits well with an annual budget process, for rates and bands and general improvements to legislation. On the other, one might question whether an annual process is excessive in relation to the devolved taxes and may lend itself to unnecessary tinkering and change. So, it's about what is necessary.

14. Without some form of annual process, it may make it harder to get problems fixed with tax issues constantly pushed to the bottom of the agenda or off the agenda entirely. A regular, formal process is needed. At present, there is no proper process in the Scottish Parliamentary timetable in which to seek legislative amendments to tax law other than on an adhoc basis. Furthermore, there is a tendency to use secondary legislation instead of primary legislation and ICAS does not believe that this is an appropriate way to exercise tax powers.

15. However, there is the question of whether an annual process would lend itself to offering an annual opportunity to new ideas, the need to use the opportunity etc, and may result in bringing forward unnecessary proposals. There should not be a need to change much in the existing devolved tax law, ie LBT, SLFT and ADT, as these are permanent taxes; they are not annual taxes like income tax. With income tax, the Scottish Parliament is only setting rates and bands so there should not be a need to for legislative changes.

16. In summary, a regular process is needed but without inviting regular change. It may be that devolved tax ‘care and maintenance’ measures should be addressed once every two years, and this could be tied into a post implementation review of the relevant act, or maybe there should be one or two opportunities built into a 5-year tax plan.

**Strategic approach to financial planning**

17. ICAS recommends that there should be a clear, brief statement of the principles and objectives, and a longer-term plan, perhaps a five-year plan, around the approach to Scottish taxation. The budget cycle should support this.

**Interaction with UK budget timetable**

18. The process to amend devolved tax legislation may or may not need to tie into the UK budget cycle, depending on whether Scotland is generally going to look to the rest of the UK in its measures, thinking of, say, Additional Dwelling Supplement.

19. The income tax rates and bands need to be set annually before the fiscal year commences; the setting of these also needs to tie in to the UK budget timetable because UK income tax plans may affect the rates and bands that could be set, for example, if there is a significant change to personal allowances or new reliefs are introduced. One of the issues here is how much the Treasury are willing to let the Scottish Government in on their budget proposals – with a partially devolved tax the UK and Scottish aspects are intertwined.

**How does the new UK Autumn budget process affect the timing of the Draft Budget?**

20. The moving of the UK budget back by 4 – 6 months to the previous autumn should be helpful. Tax matters proposed for the UK that interact with Scottish taxes should be known by the Scottish Government prior to issuing Scottish tax proposals. There are two elements to this: taxes that are wholly devolved may be indirectly affected if there are rest of UK measures that may have a competitive or behavioural impact; taxes that are partially devolved cannot be set in isolation and this needs to be factored into the Scottish budgetary process.

**In what ways can the level of transparency of the draft budget and other budget documents be improved?**

21. This is dependent on public understanding of the process.
Written Response from Jimmy Reid Foundation

Question 2. What seems clear is that, if the budget scrutiny process is going to be more than a hurried mechanical exercise, then aspects of it will have to extend beyond the constrained timetable implied by an autumn Westminster budget. A distinction needs to be drawn between the complex logistics of the budget setting process itself: and the process of achieving an understanding of the wider context within which the budget setting process is operating. A proper understanding of that context would require having good information available on questions like:-

a) Is the fiscal settlement currently operating in a stable or unstable fashion. If the system is becoming unstable, what are the factors driving this: (see Note 1.)
b) Are there concealed threats which potentially threaten the ability to deliver budget plans? Are there, for example, potential threats arising from the possibility of a crisis in local authority finances? Or from an undue reliance on “off balance sheet” methods of funding capital expenditure? (See Note 2.)
c) Is adequate information available on the financial aspects of the general operation of devolution? (See Note 3.)

I attach separate notes giving more detail on the issues involved in each of these questions.

The important point is, however, that unless there is an adequate grasp of issues like these when actual decisions come to be made in the budget setting process, then these decisions are likely to go badly wrong.

Note 1: Monitoring and Understanding the Operation of the Fiscal settlement.

Understanding how the fiscal settlement is operating, and the factors underlying its operation, will be a vital element in making sensible budget decisions. In particular, if the Scottish budget is threatened because the increase in the BGA over a few years is greater than the buoyancy in Scotland’s devolved taxes, then a critical call will have to be made. The Scottish Government will have to decide whether this is likely to be just a temporary short term blip, which is likely to be self-correcting: or whether it represents the start of a secular trend.

The danger is that, if the Scottish Government makes the wrong call, it is likely to find itself on an accelerating path of relative economic decline, relative to rUK. The fiscal settlement is unstable, in the sense that, once Scotland finds itself in a position of relatively declining tax receipts as compared with rUK, the operation of the settlement will tend to re-inforce and accelerate these tendencies, rather than moderating them. Moreover, as noted in Bell et al, (2016), the current fiscal settlement is unusual in the extent to which it exposes Scotland to the risk of an asymmetric economic shock or adverse economic trends.

Precisely what risks Scotland will face will depend on which version of the fiscal settlement is in operation. At present, the BGA is adjusted effectively in line with the
Indexed Per Capita, (IPC), method: with the possibility that, after 5 years, the Treasury will attempt to default to the Comparable Model, (CM), method, (depending on what interpretation is taken of the fiscal settlement agreement – see Cuthbert, (2016a)). Under the IPC method, Scotland is at risk, (of receiving less than it would have received under Barnett), if it fails to grow its per capita tax receipts as fast as rUK. Under the CM method, Scotland is in addition exposed to the risk of having a population which grows more slowly than rUK.

The algebra showing the relationship between the two approaches is set out in Cuthbert, (2016a), where (formula (1) in that paper), it is shown that the difference between the BGA and the CM and IPC methods grows cumulatively, with each term in the cumulative sum being an increasing function of the relative rate of population growth between rUK and Scotland. So the first step in understanding the potential difference between CM and IPC is to have available clearly displayed information on relative population growth, and how it is contributing to the evolution of this formula.

In many respects, however, the way in which the fiscal settlement negotiations came to fixate on relative population growth is something of a distraction. The big risk for Scotland, (particularly in the circumstances of secular decline in the North Sea), will be that per capita receipts on devolved taxes fail to grow as fast as in rUK. So it will be important for the budgetary process to be informed by clearly displayed information on what is happening to per capita devolved tax receipts in Scotland and in rUK: and also for information to be available on the factors which may be causing any divergences. Given that income tax is the main devolved tax, it will be particularly important to have relevant information available, and analysed, for income tax. In this respect, it will be important to have information on whether any divergence in income tax receipts per head is being driven by differences in the size of the tax base per head; and/or by differences in the tax richness of that base: (i.e., the amount which a standard tax policy would raise from a given base.)

A main factor which is likely to affect tax richness is likely to be any relative changes in the distribution of the tax base by income band.

What this points to is the need for a comprehensive report to be produced each year, giving, not just the full detail on the operation of the fiscal settlement, but also figures for Scotland and rUK on factors like population change, tax receipts, size of the income tax base per head, and tax base analysed by income band, together with an analysis of the impact of these factors on the operation of the fiscal settlement. Also relevant to what is happening, of course, will be economic information on relative GDP trends, etc.

Producing a report which pulls together all this information into a meaningful and accessible statement will be a non-trivial task. Such a report would require significant consideration and debate in its own right: this suggests it might better be handled outside the tight budget setting cycle between the Westminster Autumn budget, and the deadline for finalising the Scottish Budget.

In the 2008 financial crisis, one of the nasty surprises was the impact on apparently well laid financial plans of various forms of commitment which had not originally been recognised. The most obvious form of this was when various assets, and their associated liabilities, which had been accounted for as “off the books” of financial organisations, suddenly reverted to being “on book” when the assets, (but not the liabilities), became worthless. But a similar, less formal, process also took place on a large scale when governments found that they could not escape underwriting the liabilities of various bodies – even though they had no formal accounting requirement to do so.

There are a variety of similar potential threats surrounding the Scottish Budget – both of the formal “off the book” type, and the less formal type. It is argued here that budgetary decisions cannot safely be taken unless there is better recognition of such potential threats.

Probably the greatest such potential threat would be if there were to be a crisis in local authority finances. (As an interesting aside, the glossary to the BPRG Interim Report defines DEL plus AME as the “sum of current and capital expenditure of central and local government and public corporations.” But the AME figures quoted in the Scottish Budget are departmental AME. This means that, as regards local authorities, DEL plus AME covers grants from the Scottish Government, and non-domestic rate income, but it does not cover expenditure by local authorities funded by council tax receipts, charges, or asset sales. The Interim Report itself thus in effect significantly overstates the extent to which local authority finances are covered in the budget documents.)

In both rUK and Scotland, central government has increasingly moved towards making local authorities themselves take responsibility for their long term financial planning and stability. This can be seen most clearly in the introduction, on both sides of the border, of the Prudential Code for Capital Finance. With the introduction of this code, central government abandoned the old system of controlling local authority capital expenditure through the issue of borrowing consents. Instead, local authorities were given the freedom to make their own decisions about borrowing for capital expenditure: each authority has, however, to set prudential indicators designed to endure that borrowing is affordable and sustainable, and has to produce an annual report showing that it is adhering to the prudential indicators that it has set.

It is quite clear, however, that if local authorities were to hit severe financial problems, then the Scottish Government would not be able to insulate its own budget from the resulting effects. If local authority services were being radically cut back, or council tax increasing too rapidly, then central government would face irresistible
pressure to reconsider its own priorities, and to make additional resources available to authorities.

Given this, it is very important for the security of the Scottish budget that both of the following conditions hold: namely:-

a) the Scottish Government has a good appreciation of the medium term prospects for local authority budgets.

b) that mechanisms like the Prudential Code are operating safely and effectively.

At present, it appears that neither of these conditions is being met.

The Scottish Government appears to be remarkably poor at assessing even the fairly short term prospects for local authority budgets. In particular, it appears to be worse at doing this than some academic agencies. For example, it is instructive to compare the assessment of the prospects for local authority budgets in the Fraser of Allander Report, (FOA, 2016), which gives a careful, reasoned, and pessimistic, assessment for prospects up to 2020/21, with the Scottish Budget issued in December 2016. The budget only assessed prospects for local authority budgets up to 2017/18 – much too short a period.

Secondly, the Prudential Code is not operating satisfactorily. The operation of the code was the subject of a report from the Jimmy Reid Foundation, (Cuthbert, 2016b))


In that report, (a copy of which is submitted with this response), it was argued that the operation of the code had not adapted to the changed circumstances since its introduction. In particular, the planning horizons used by most local authorities in assessing their prudential indicators are too short. In addition, putting responsibility on each authority individually to assess its financial prospects gives no guarantee that authorities were sticking to nationally consistent assumptions.

The Jimmy Reid Foundation paper suggested a possible solution: namely, that there should be a central body, (but not central government), responsible for making an informed assessment of the medium term prospects for local authority finances: and that the financial planning projections of individual local authorities would both inform, and be informed by, this central assessment. Such an approach would do much to rectify both of the weaknesses identified at a) and b) above. Whether this is the appropriate approach to adopt or not, it seems clear that present practices need to be improved, if a potential funding crisis in local authorities is not to put the overall Scottish Budget at risk.

So far, I have concentrated on what, in the language of the opening paragraph of this note, is an informal “off the books” threat to the Scottish Budget. But in addition, it is important not to lose sight of the extent to which the Scottish Government is using formal “off the books” accounting in order to maximise capital expenditure. In particular, through the Hub initiative of the Scottish Futures Trust, more than £2
billion capital expenditure is being undertaken which is funded from revenue, and does not appear “on the books” of the relevant commissioning public authorities: and about £3.5 billion of capital expenditure in total is being funded through various innovative approaches. The Scottish Government’s primary approach to ensuring that this does not cause future problems has been to set a limit (of 5%), as the maximum amount of the DEL to be taken up by the Scottish government’s contributions to funding such schemes. This seems to be an inadequate approach. If problems arise, they are likely to arise in the budgets of the commissioning bodies: and if the problems are serious, they are unlikely to be containable at this level. The Scottish Government should be more pro-active in modelling and assessing the wider implications of formal “off the books” funding methods.

Note 3. Background Information on the Operation of Devolution across the UK.

Although not required as an essential input to the process of actually setting the Scottish Budget, it will still be important to have good background information available on how devolution is operating over the UK as a whole.

For example, one dataset which those setting and scrutinising the Scottish Budget will wish to have available to them is on the levels of per capita spend on the different “devolved” services in the different parts of the UK. This is not to envisage, of course, that budget setting should simply reduce to matching spending levels elsewhere in the UK: the whole point of devolution is to let different political priorities be reflected in different spending priorities. But if accurate information is not available on what is being spent elsewhere on comparable services, then misleading claims are likely to be made: and this in itself could distort budgetary decisions.

The Treasury does publish a country and regional analysis of public expenditure in its annual Public Expenditure Statistical Analysis, (PESA). However, the Treasury figures are not ideal, because they take no account of the distinction between devolved and reserved services. Taking account of the devolved/reserved boundary will be even more important when aspects of social security are devolved to Scotland. Improving PESA is essentially a database issue, and ideally would require the alignment of the coding structures underpinning the Treasury Funding Statement, (which drives the Barnett formula), and the Public Expenditure Statistical Analysis. But once these databases are aligned, it should then be a relatively simple matter for the relevant analyses to be produced and published. (Note that different comparable expenditure figures will be required for different purposes: for example, the “comparable expenditure” figure for London required for comparison with Scotland will differ from the London figure required for comparison with Wales, because of the different bundle of services devolved in Wales and Scotland.)

It would also be very useful to extend the existing GERS publication to bring out the different cross border funding flows. In essence, Scotland will be passing to Whitehall those tax revenues which are not devolved or hypothecated: and it will be “getting back” the aggregate of the abated block grant, plus Scotland’s share of
identifiable public expenditure spent for Scotland by Whitehall departments, plus Scotland’s share of non-identifiable public expenditure. The balance between these two aggregates will be very relevant to what the policy response should be to any funding squeeze in the Scottish Budget: and unless the Scottish government, or the Treasury, produce an authoritative estimate, unofficial, and less authoritative, estimates are likely to be quoted.

References.


Written Response from John Mason MSP

Mr Bruce Crawford MSP
Convenor
Finance and Constitution Committee

Friday, 21 April 2017
Our reference: JM/AM

Dear Bruce,

Budget Process Review Group

The subject of the budget and its scrutiny has come before both the committees on which I sit, namely, Economy, Jobs and Fair Work Committee and Rural Economy and Connectivity Committee. Therefore, I wanted to make some brief comments at this stage.

I think it has become apparent that many MSPs are frustrated at the present budget process and I wonder if this is perhaps because of unrealistic expectations. It seems to me that at the Parliamentary level we can only really set a fairly broad based budget and the detail will then be handled by other organisations further down the line. Therefore, while we can allocate a certain amount of money to health and to some extent an allocation within that to different sectors, the actual very detailed decisions on how that money will be spent is likely to be by individual health boards, perhaps individual hospitals, and the new health and social care joint boards.

Therefore, it seems to me that one of the main ways that committees and MSPs in general at the Parliament can impact the budget is by suggesting:

1. That one or more taxes be raised or lowered and some part of the expenditure budget be adjusted accordingly.

2. That one sector of the budget e.g. health be cut by a certain amount so that more resources could be allocated to another sector e.g. education.

3. That within a sector like education more resources be given to perhaps colleges and fewer resources to perhaps universities.

It seems to me during my six years in the Scottish Parliament that there has been a lack of willingness amongst committees and amongst opposition parties to make such broad suggestions or recommendations. If such recommendations were made, then this would promote a more obvious debate as to whether we put more resources into one sector rather than another. However, we seem to be in the position at the moment that all committees and all parties broadly accept the budget, will ask for extra spending in certain areas but seldom, if ever, propose a reduction in some other part of the budget. To be fair to the Green Party I think they might be an exception in that they do sometimes suggest a reduction in one part of the budget.

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Therefore, I fear that we are unlikely to have a proper debate around the budget if no one is willing to make proposals such as the above.

My other main point would be that I remain convinced that Westminster should be setting its budget in the first place, then after we are clear on the Westminster budget, the Scottish Parliament (and other devolved administrations) can go ahead and set their budgets and finally local government can set theirs. It seems to me that the previous arrangement of Westminster being one of the last to set its budget makes it impossible for either the Scottish Parliament or local government to plan in a logical way.

Many thanks for your work on this issue and I hope these brief comments are of some use.

Yours sincerely,

//John Mason MSP

Annex

Answers to Specific Consultation Questions

In light of my above comments, I would just give specific answers to two of the consultation questions:

a) How effective is current public engagement in the budget process and how can this be improved.

I think attempts have been made to encourage public engagement, but based on my comments above, my suggestion would be that if there were options or amendments in the public domain, it would be easier to have the public engaged. Therefore, if it was proposed by one committee or one political party to put £100 million extra into health and take £100 million off education, I think this would promote public engagement and debate.

b) Should the Parliament have the opportunity to lodge amendments to the budget bill or should non-government amendments still only be proposed at the pre-legislative stage.

Again, based on my previous arguments, I think it would be positive if amendments could be lodged other than by the Government during the passage of the bill. My suggestion would be that these are revenue neutral and this would obviously have to be confirmed by the Scottish Fiscal Commission or some other body. For example, if extra money is to be added to the budget expenditure, then a matching figure would have to be added to the tax raised.

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Written Response from Local Government and Communities Committee

We considered our response to your letter at our meetings on 29 March and 26 April and it is as follows—

Presentation of the budget

In our budget report, we concluded that greater transparency in the Draft Budget and associated documents is required, and that the actual figures contained in the Draft Budget for local government together with the allocations to local authorities contained in the Local Government Finance Circular are very difficult to follow.

We believe it is essential in scrutiny terms that this Committee, and the Parliament as a whole, is clear on exactly how much money local authorities can be expected to receive and from what sources and with what conditions, if any, on their purpose. In its response, the Scottish Government accepted this and undertook to provide as clear as possible the necessary transparency which could include full reconciliations between Draft Budget and Budget figures; Draft Budget to Draft Budget figures; and the changes between the Draft Budget figures and the total local government funding contained within the Local Government Finance Circular. In addition, the Scottish Government said the breakdown of funding outwith the settlement could also be provided and consideration will be given to separating the date of the Draft Budget and the Local Government Finance Settlement.

The Committee also believes that it is important that budget documentation, where possible, should avoid the use of jargon and inaccessible language. We believe that training for staff and members on the complexities of the process and future changes to the process is key to making budget scrutiny more accessible and understandable, thus making it easier for people to engage meaningfully with the process.

Full Year Approach
The Committee is aware that the timescales for considering the draft budget have always been challenging and, given these challenges, this year we agreed to undertake pre-budget scrutiny in advance of the draft budget documents being published. This approach and the potential for scrutinising the budget implications of Government policies for local authorities earlier in the process to help inform consideration of the actual allocations in the Draft Budget, seemed a more sensible approach to ensure effective scrutiny. In addition, we continue to monitor the delivery of policies, such as Affordable Housing Supply Programme, and the budgetary impact of these policies throughout the year and mainstream budget considerations as part of our on-going work programme. By undertaking this scrutiny out-with the formal Draft Budget timetable, we believe that this provides the potential to influence the Scottish Government’s budget proposals in advance of its publication.

**Multi-Year Budgeting**

During our pre-budget scrutiny, we heard of the importance of multi-year budgets and the ability for local authorities to develop longer term financial plans. We also took evidence from the Accounts Commission on its financial overview report which highlighted that the public sector reform challenges are being compounded by, among other things, a one-year financial settlement and the need for local authorities to undertake long term financial planning. Witnesses also told us of the lack of flexibility passed on to local authorities and concerns around the impact on services which are not effectively ring-fenced.

We understand this desire for local authorities to receive multiyear funding in order to undertake effective financial planning, however we appreciate why the Scottish Government, on this occasion, published a one year budget given the levels of economic and fiscal uncertainty. Nevertheless, we recommended that next year an indicative budget for 2019-20 is presented alongside Draft Budget 2018-19 as it is imperative that local authorities develop long term financial plans and, in order to do this effectively, indicative projected figures should be provided in the absence of multi-year funding.

**Outcomes-Based Budget Scrutiny**

During our pre budget scrutiny, we considered the SPICe social impact of the 201617 local government budget briefing paper and examined the way that local authority spending decisions reflect their priorities especially in relation to reducing inequalities. We wanted to scrutinise how local authorities spending decisions reflect the priorities of the National Performance framework and choices about where to allocate resource. This briefing session informed the evidence session with stakeholders on the factors that affect local government spending decisions, including the extent to which local authorities have to meet local needs and deliver national outcomes. We believe that this approach should be developed further in future years and the Group should consider how any new process could be designed to help committees develop this approach.
Yours sincerely,

Bob Doris MSP
Convener of the Local Government and Communities Committee
Written Response from NHS Ayrshire & Arran

Budget Process Review Group

Thank you for the opportunity to contribute to the review of the budget process. While this letter does not answer all of the 25 questions in the consultation document, it gives a practical view from a Health Board perspective on multi-year budgeting and budget scrutiny by Parliamentary Committees.

The UK Comprehensive Spending Review outcome for the five years from 2016/17 to 2020/21 was announced on 25 November 2015. On 16 December 2015, the Scottish Government announced a single year draft budget for 2016/17 that was then subject to the Scottish Parliament scrutiny process before approval. On 15 December 2016, the Scottish Government again issued a single year draft budget for 2017/18.

Single year budgets make long term financial planning more difficult for Health Board as assumptions have to be made about allocation levels. However, even if there was certainty about funding allocated to the Health Directorate, policy decisions made at that level has earmarked most of any additional funding passed to Health Boards in recent years. The Health settlement for Health Boards in 2016/17 included £250 million ring fenced for social care, which accounted for over half of the additional funding for Health Boards. In 2017/18 health settlement, £107 million out of the £136 million general allocation uplift to Health Boards was designated for Social Care. The Scottish Government in 2017/18 also funded £50 million to move some Health Boards towards “Fair Share” of funding and £74 million was earmarked for developments in Primary Care, Mental Health, Major Trauma and Health Visitors.

Scrutiny of policy decisions and investment priorities decided by Ministers, which earmarks the majority of additional resources for Health, should therefore primarily be through the Parliamentary process.

The Scottish Government announced a draft 2017/18 budget on 15 December 2016, following the UK Government Autumn budget statement in November 2016. Future UK budgets in the autumn are therefore within a similar timescale. The Parliamentary process takes until February before the budget is approved by the Scottish Parliament and this involves high level scrutiny of the budget by the Finance and Constitution Committee, however does not give other Committees enough time to take evidence to inform scrutiny of the draft budget. The opportunity for Health Boards to have meaningful public engagement on a single year budget before setting their budget in March is therefore limited and so most public engagement by Health Boards is about longer-term plans and significant service change. Parliamentary Committees could have more meaningful scrutiny of multi-year Spending Reviews or a medium term financial strategy.

being asked in April of each year (once budgets were set) to complete a questionnaire on their budget then a selection of Health Board Directors of Finance were invited to give verbal evidence. This allowed the Health and Sport Committee as well as issuing a short report to the Finance Committee on the draft budget in December or January, to issue a report between June and October each year entitled “NHS Boards Budget Scrutiny”. This demonstrates that budget scrutiny can be done throughout the year.

Health Boards are held to account for delivery of a wide range of targets, from health improvement to quality to waiting times to financial. They are held to account by Scottish Government through a mid-year and year end review, some of which are in public. In addition, external auditors produce an annual audit report for each Health Board which is considered at a public board meeting and is consolidated by Audit Scotland into their NHS Overview Report which is presented to the Public Audit Committee of the Scottish Parliament. Trying to attribute the total expenditure by public bodies against a number of outcomes or performance targets is difficult and may be spurious, whereas the above accountability mechanisms cover both financial and performance targets.

Yours sincerely,

Derek Lindsay
Director of Finance
Written Response from North Ayrshire Council

Theme 1: How effective is the existing budget process?

Principles Based Approach

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

The Financial Issues Advisory Group (FIAG) principles. These are:

- Provide opportunities for the Parliament to comment on expenditure priorities and to influence the Executive’s preparation of Budgets;
- 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;
- Provide sufficient time for the Parliament to consider and debate proposals fully;
- Provide balance between the requirement for parliamentary scrutiny and the needs of the Executive;
- Provide some degree of certainty so that on-going activities can continue without prolonged uncertainty;
- Provide an efficient mechanism to deliver motions to be debated by the Parliament;
- Provide a meaningful role for subject committees and the Finance Committee;
- Deliver timeous decisions on tax varying power and the Budget (as well as the interim spending approval and budget amendments);
- Engages all MSPs;
- Facilitates the Executive’s formulation of proposals; and
- Provides for the right of amendment.

North Ayrshire supports the FIAG principles, however these relate principally to an expenditure budget. These require amendment to reflect the new and growing role of the Scottish Government in setting taxation.

Full Year Approach

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

Yes. A full cycle of financial performance and delivery of outcomes should be established. To maximise effectiveness the Budget should look at the term of
government adopting a multi-year approach. This would provide the opportunity for subject committees to consider and influence the development of performance standards and outcomes and help to influence spending decisions.

The challenge is the need to accept risk in financial forecasts, and to be prepared to move away from single year budgets. In doing this there is an opportunity to be more inclusive in assessing and determining priorities. The significant opportunity is to determine budget allocations based on outcomes and levels of performance, not on input.

The IMF Code, which the OECD is expected to follow, sets out a comprehensive approach including:

- Timely and full fiscal reporting and forecasting including an overview of the government’s finances with clear links to policy intentions and the Programme for Government and delivery of outcomes and the national performance framework targets
- Fiscal risk analysis and management covering medium and long with scenario planning, recognising the uncertainty we operate within, including the fiscal framework and Brexit, and assurance that decision making considers interdependencies across the wider public sector.

The OECD budgetary cycle (page 15) and the Audit Scotland approach (page 17) of the consultation documents align with the approach taken by local government. Such an approach by the Scottish Government would ensure alignment with best practice delivering a more transparent, systematic and sustained engagement by the Parliament on fiscal matters.

Public Engagement

3. How effective is current public engagement in the budget process and how can this be improved?

Current public engagement is limited. This could be more effective through proactive and timely engagement with MSPs as the elected representatives of their communities or at a more local level. Choice at a local level of (national) targets and allocation of resources (ring fencing), rather than imposition of “one size fits all” would aid meaningful public engagement.

The approach in 2017/18 of responding to (some) questions from the public and via social media could be developed to align with the wider expectations enshrined in the Community Empowerment Act.

It is recognised that any engagement by Scottish Government will focus on the high level decisions with more local engagement taking place as Councils set their budgets. The high level decisions could focus on the big issues e.g. levels of
taxation, protection of some services relative to others, the ability for councils to have absolute discretion of the level of local taxation, KPIs and resource consumption on key services.

In consulting with the public, clarity of information is paramount. The current Budget publication is complex, not user friendly or easy to understand. The timing and transparency of this would require review to support effective public engagement.

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

Evidence of good practice from New Zealand is cited within the report where information on outcomes, cost of achieving these and clarity of what was delivered is published. There are a number of good examples in Scotland and the UK where Councils use a budget simulator which outlines options alongside the impact of these to allow the public to express their view on relative priorities.

5. What should be the purpose of public engagement on the Scottish Budget?

Whilst governments will argue that they are elected on the basis of their manifesto, there are clearly funding choices and service priorities over which others could have more input.

The Community Empowerment Act sets out clear expectations of the role of communities across Scotland. Effective public engagement would ensure that there is an open and transparent process to the formulation and delivery of the Programme for Government with a clear understanding of how this is prioritised and funded.

Stage 2 (Draft Budget Scrutiny Phase)

6. What should be the core objectives of parliamentary scrutiny of the draft budget?

Parliamentary scrutiny should cover the following:

- Is the Budget evidence based supported by robust data analytics?
- Does the Budget deliver the Programme for Government?
- What are the implications for existing services?
- Is it fully funded on a recurring basis?
- Is it sustainable in the medium and longer term e.g. addressing the significant challenges in health and health and social care?
- Is there enough focus on outcomes rather than inputs?
- Does it deliver the KPIs?
Does it provide flexibility (ring fencing of resources, raising of local taxation) to meet local priorities?

Parliamentary scrutiny should include the medium and long term financial plans of the Scottish Government, to reduce uncertainty and avoid sub optimal outcomes.

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

The Government's Budget isn't public until published, Parliamentary privilege is cited as the reason for this, with the Budget tending to focus on the marginal changes. In the last 2 years the budget has focussed on a single year with no debate taking place before stage 2.

A full financial reporting cycle, as noted above, together with pre legislative consultation with all MSPs would give more opportunity to consider proposals at an earlier stage. Subject committees’ ability to influence the budget setting process is unclear. The intended outcome should be one of setting objectives and outcomes in support of the Programme for Government with a clear line of sight to the Budget. This together with a more joined up approach across portfolios, with clear recognition of interdependencies could enhance the scrutiny process.

The report notes the original purpose of the stage 1 review includes;

- the opportunity for consultation with key stakeholders; subject committees, MSPs and communities to influence government thinking
- early sight of provisional expenditure plans and an assessment of delivery of the programme for government
- strategy, priorities, performance and targets.

The frequency of stage 1 has moved from annual, to the years in which a Spending Review occurs, to once in each session of Parliament to a more flexible approach at any point in the year. This shift has reduced the opportunity to debate formulation of policy aligned to the Budget.

The report notes that the financial planning to inform the draft budget commences around 6 months before publication and Stage 2 (Draft Budget Scrutiny Phase) of the budget process. In recent years this stage has been delayed pending publication of the UK Autumn Statement, reducing the time available for scrutiny. The number of days available for debate has varied between 21 and 62 days. More recently the scrutiny period has been at the lower end with only 27 and 21 days available for scrutiny of the draft budget in the last two years, compared to between 47 and 53 in the preceding four years.
The draft report notes that a number of the scrutiny committees are concerned about the unrealistic timescales to allow appropriate scrutiny to take place. This reinforces the need for the Scottish Government to develop a suite of financial reporting throughout the year alongside the development of transparent medium term financial plans that are subject to “smoothing” in future years from the new powers available.

There is no doubt that financial planning is more complex and potentially subject to greater volatility than before, this in itself requires greater transparency and accountability to ensure that the financial plans are understood by key stakeholders. These points have been identified by the Fraser of Allander Institute and The Auditor General for Scotland, AGS, with the latter noting that work has commenced by the Scottish Government to develop a broader suite of financial reports; specific areas for inclusion in this review are noted on page 32 of the report. The need for greater clarity and improved presentation, including how expenditure is being funded, is noted by the AGS, this should help avoid some of the debate that has taken place in the last couple of years on the interpretation of the budget. Transparency requires a shared understanding of what the budget means with clear links between resources and outcomes.

It is not clear within the current arrangements how alternative tax and spending proposals are formally tabled and debated, the principles that sit behind this are sound in that all proposals brought forward require a clear statement re funding. The current process and timetable do not appear to support this. Whilst it is for the Scottish Government to set out policy, the current focus on the budget is sometimes about inputs rather than outcomes.

The process of informal negotiation, as evidenced at stage 2 in the 2017/18 budget partially reflects the experience of local government, however transparency about the underlying financial assumptions are clearer within the local government context.

The extended role of the SFC is welcome and should provide assurance about the affordability and sustainability of the Programme for Government in the medium and longer term.

The report notes the Scottish Government’s expectations of the scrutiny process being an outcomes based approach using priority based budgeting. This is not always evident in the approach that the Scottish Government takes. New policies appear to be added with no review of existing policies or a clear picture of how the new policies are funded.

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?
The timing of the UK budget will create challenges for the Scottish Government. Despite this it is essential that the Scottish Government develops its approach to budgeting to ensure this doesn’t build in further delays to the scrutiny or setting of its budget. Like other organisations financial modelling is a key aspect of sound medium and longer term financial planning. Implementation of a full cycle of financial reporting, as noted above, should ensure that the Parliament is better informed.

There is wide recognition that the budget setting process of the Scottish Government has become more complex as a result of the tax varying powers. Like all businesses the Scottish Government needs to manage this uncertainty from the power it has to borrow for fluctuating revenues, thus able to smooth the impact of a variation between anticipated and actual income and set its budget timeously.

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

Responses to previous questions have highlighted a number of areas for improvement, these are summarised below;

- Development of a full cycle of financial reports with a clear timetable of reporting to allow sufficient scrutiny
- Clear line of sight between the Programme for Government, outcomes and funding
- Clarity of assumptions and risks to enable all public bodies to make assumptions about future years’ funding in the absence of any certainty over funding from the Scottish Government

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

Stage 3 is considered to be the technical exercise linked to the approved draft budget proposals. If other parts of the system are working well, full financial reporting, timely scrutiny at earlier stages then the only remaining issue re stage 3 is one of timing.

The current timing of the budget bill does not allow sufficient time for public bodies to make service provisions for the new financial year. In line with other responses there is a call for multi-year budgets with indicative grant funding beyond one year.
11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

Amendments at the Budget Bill stage are too late, impacting adversely on the wider public sector and statutory agencies including HMRC and Revenues Scotland. To allow an effective and timely process to be in place, a full cycle of financial reporting and engagement is required.

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

Response to question 11 notes that scrutiny, debate and amendment should happen at an earlier stage in the budget process with Stage 3 remaining a technical process to translate the draft budget into legislation. Public bodies need greater certainty and longer term financial plans to deliver the best possible outcomes.

**Theme 2: What is the impact of the Fiscal Framework?**

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspect be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

Responses to previous questions advocate a suite of financial reporting to the Parliament. The information / scrutiny referred to in questions 13 and 14 should form part of this.
The Fiscal Framework is new and complex as such it will be important to provide clarity of each of the components including:

- The impact of the estimated tax assessment on the block grant including an understanding of the position of Scotland versus rUK
- Transparency on the lag in tax receipt information, with the lack of historical data making the process difficult, and the impact this has on financial forecasting and previous year adjustments, potentially requiring use of borrowing powers to smooth the impact of tax receipts
- The need to adopt a longer horizon to financial planning
- The reducing impact of the Barnett consequentials on the Scottish Block Grant
- Clarity of assumptions on economic growth and all tax receipts including NDR.
- Risk assessment of underlying assumptions

There is a need for reasonable timescales and frequency of reporting to allow appropriate scrutiny.

It is important that there is clarity on the roles and responsibilities of the different bodies involved in financial planning and scrutiny, including SFC, subject matter committees, finance committee etc.

**Theme 3: How effective is the current approach to Multi-Year Budgeting?**

The recent frequency of political events, such as elections / referenda at a UK, Scotland and local government level, appear to have shortened the financial planning horizon of the Scottish budget process and multi-year budgeting seems to have been de-emphasised. A long-term financial plan is critical to delivery of the best outcomes for Scotland, without this investment in early intervention, key to transforming services, is likely to suffer.

**15. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?**

The SG Spending Review should provide clarity and transparency of anticipated and sustainable outcomes and performance levels aligned to the Programme for Government and available resources providing an opportunity for engagement with the Scottish Parliament as the democratically elected members of local communities.

UK Government has provided “high level” figures to 2012/22, the Scottish Government could do likewise. The frequency should be similar to the UK Government providing a 5 year plan for Life of Parliament. A broader 10 year plan covering current Parliament + 1, reviewed on a rolling 3 year basis would provide sight of longer term ambitions. A preventative approach needs longer term investment given the timescales for outcomes to be realised.
The response to previous questions notes the need for a suite of financial reporting to Parliament. This, alongside use of estimating, use of new powers to financially plan across financial years would allow for more timely production of information and debate in Parliament.

16. What level of information should the Scottish Government publish?

Information should be published well in advance in order to challenge assumptions and outcomes, with a clear link to the Scottish Government’s manifesto. At present, whilst expenditure commitments are visible it is not clear how these are to be funded. There needs to be much greater clarity to enable a cross public sector view to be taken, and better alignment of plans e.g. local authority and NHS.

The identification of funding should include planning for, and notification of, disinvestment of existing policies to allow for the financing of new policies or transformation.

17. What should be the role of the parliament’s committees in scrutinising Spending Reviews?

This is covered in the response to previous questions. Scrutiny should cover the full financial reporting suite with the Parliamentary Committees having the opportunity to challenge Government policy and funding allocations. To be effective information has to be available on a multi-year basis with sufficient time available for debate.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

18. Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?

Yes. There is no technical reason why the Scottish Government cannot publish medium term financial plans. This would meet Audit Scotland expectations and support financial planning across the wider public sector. New powers which allow smoothing across years should facilitate this.

The current Programme for Government sets out expenditure proposals, but without sufficient clarity of how these proposals are to be funded and whether the funds will meet future demand for services e.g. health and social care, this is essential to ensure full transparency of the sustainability and affordability of the Programme. Some policy aims are clear in the medium term e.g. 1,140 hours for Early Years, £500m above inflation on Health, no increase in income tax. However funding sources for new initiatives are not clearly identified in the
manifesto / Programme for Government. Identification of funding sources for new initiatives is essential to ensure transparency of the impact on existing commitments of funding reductions in these areas.

Recent years have seen one year settlements with an increase in prescription / ring fencing, creating significant challenges in forward planning existing services. This approach can result in public bodies taking short term measures including; use of reserves, delaying longer term planning which may deliver better outcomes and disinvesting in preventative services.

Some of the issues which may impact on a move towards medium term financial plan, but which require to be overcome, include;

- The expertise / capacity to develop fiscal modelling
- Use of data analytics to predict future demand, in particular around health and social care
- The lack of Scottish data for some of the key figures
- Unprecedented uncertainty caused by Brexit
- The potential for a second Scottish Independence referendum
- New “unknowns” being transferred from Westminster e.g. social security, adding to the risk profile
- Political environment which mitigates against medium term plans being consulted upon

19. If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?

Any medium term plan needs to be reviewed annually and should include optimistic / most likely / pessimistic scenarios around:-

- Economic forecasts
- Devolved UK resources
- Income raising proposals
- Use of current flexibilities to balance the Scottish budget over the medium term
- Clear analysis across core sectors and revenue / capital
- Medium and Longer term performance
- Delivery of outcomes

The SFC should provide assurance on the underlying assumptions / projections including use of data and evidence.

**Theme 5: How effective is the current approach to outcomes-based scrutiny?**

20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?
There are a number of issues which if addressed could improve value for money and ensure a more outcome based approach;

- Protection is in place for some services, there are examples where this is input based rather than outcome focussed e.g. maintaining police and teacher numbers. Inputs are easy to measure but do not ensure the best outcomes or best value.
- A clearer link between allocation of resources and outcomes / targets is desirable, this would allow an assessment of the ability to deliver within allocated resources
- Ring fencing of funding reduces flexibility to deliver the best outcomes at a locality level and can reduce value for money
- A more joined up approach across SG portfolios to ensure interdependencies are clear and opportunities maximised
- The relative accountability and responsibility between the Scottish Government and local government can restrict delivering the best outcome at a locality level; is local government a vehicle for delivering Scottish Government policy, or a democratically accountable body in its own right to its own electorate?

21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

There are a number of steps which require to be taken to ensure the right interventions are established, outcomes agreed and appropriate measures put in place to track delivery and support effective scrutiny;

- Effective use of data and clear evidence based outcomes alongside sufficient funding would assist in scrutinising the cost / benefits of new policies and implementation of legislation;
- A move away from Incremental budgeting by the Scottish Government - the focus is on marginal increases / decreases without clarity of the impact on the existing / base funding, scrutiny of this is essential to ensure that the whole funding package is supporting outcomes and Best Value
- Recognition of the time lag between providing funding and delivery of outcomes, this ties in with the need for medium / long term financial planning. Some considerations include;
  - The need for capital investment, time to plan for this and deliver before new initiatives can commence
  - Early notification of funding to allow sufficient time to plan, recruit etc.; funding allocation in February for possible implementation from 1 April is challenging
- The need for certainty around funding streams to avoid exposure on longer term commitments e.g. recruiting staff on a temporary basis may not result in the best candidate whereas offering permanent posts can leave organisations exposed.
• A clear time horizon for post implementation scrutiny to assess the success of any initiative would be beneficial.
• Recognition of the balance between local and national priorities
• National Performance Framework supports this approach;
• The electoral cycle hampers a longer term approach to delivery of outcomes
• Transparency can be clouded when presented in cash and real changes, the latter often confusing for the wider reader
• Consistent and unbiased presentation of the Budget, in the last few years there has been debate about the shift in resources across years. Whilst there is recognition that the budget “moves” during the year, this should not get in the way of factual reporting of available resources.
• Whilst in general central government bodies have limited ability to hold reserves, which could provide flexibility to support forward financial planning (e.g. to absorb unexpected cost pressures or up-front investment in longer term transformation programmes), the new fiscal framework provides flexibility for the Scottish Government.
• For the NHS, a more flexible framework, for example more ability to hold some reserves and/or carry forward some balances, could support longer term financial management and facilitate transformation to achieve a community based model of care and support.

Performance and Reporting

22. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF? This has been covered largely in previous answers. The main requirements are;

• clear rationale for funding against specific expenditure heads
• clear links between level of investment and outcomes
• a clear understanding of the anticipated impact on outcomes of changes to funding across all policy areas
• timescales over which improvement, deliverables, and outcomes are expected to be achieved, and how these will be measured.

23. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

A hierarchy of reporting should be embedded with summarised information provided by Scottish Government supported by more detailed local information e.g. local authority, health board.

24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?
Parliament has an important role in scrutinising performance and delivery of outcomes. Proper scrutiny can only take place if the proper building blocks are in place, including:

- Multi-year budget
- Proposals published in advance and with sufficient time for proper debate / scrutiny
- Clear evidence of outcomes and how these link to funding allocations
- Clarity of assumptions underpinning the budget proposals

**Public Audit**

25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

The draft report notes the evidence provided by the AGS, this has been highlighted in the response to previous questions.

Audit Scotland can be used more effectively if the key building blocks are in place. Audit Scotland could be more challenging in assessing how performance data is used to achieve better outcomes. If the Scottish Budget provides clarity of expected outcomes, Audit Scotland is well placed to review if these are being delivered.
Budget Process Review Group

Purpose

To provide background information on Open Government Partnership and its potential to support the work of the Budget Process Review Group [BPRG] as set out in the Interim Report, issued on 10th March 2017

Background to Open Government Partnership

The Open Government Partnership was launched in 2011 to provide an international platform for those committed to making governments more open, accountable and responsive to citizens. (link to the Open government partnership).

In each member country, government and civil society are working together to develop and implement reforms which ensure that people can see, understand, participate in and influence the workings of government as well as holding governments to account. This is achieved through the delivery of national action plans that are independently reported upon.

OGP has grown in stature and credibility very fast, it began with 8 member countries and is now has almost 80. It is seen by the United Nations as making an important contribution to rebuilding trust in governments and institutions; seeking to reward innovation, improve democratic processes and fight corruption around the world. There are major active strands of Open Government work to develop international standards on transparency, anti-corruption, data sharing and protection, the use of new technology to aid reform, as well as promoting system wide openness and citizen participation in the work of Parliaments and all levels of government.

Criteria and Grand Challenges for Membership (see annex 1)

The UK was a founder member which means that Scotland has already met the core criteria for membership of OGP. The criteria require member countries to meet a standard for fiscal transparency, make adequate provision for access to information and for effective citizen engagement. The challenges adopted in 2013 sought to raise the bar on commitments in action plans and to increase the pace and scale of change.

Since the launch the Sustainable Development Goals in 2015 there has been a recognition that the aims of Open Government Partnership coincide with those of the SDGs and that the national action plans can provide a useful mechanism to speed up progress on their delivery. This was articulated in a SDGs Joint Declaration by a number of OGP countries during the United Nations General Assembly in 2015. Increasingly OGP countries, are using the goals as a framework to develop their national action plan, some with commitments specifically brigaded under the specific SDGs.
The First Minister was one of the first international leaders to recognise the importance of the Global Goals in shaping domestic policy as well as our contribution to international development. Added to which the 15 year timespan is a useful one over which to plan societal transformation. Although goal 8 on economic growth may seem most relevant for the BPRG, planning for the delivery of the SDGs by 2030 strongly supports your action to ensure there is proper, early, consideration of the social and environmental as well as the economic impact of spending decisions. This along with agile forward fiscal planning with stakeholder and citizen involvement could ensure the budget process is a core part of delivering the SDGs. Future Scottish OGP action plans could include commitments to develop a framework for this to be developed. Scottish Council for Voluntary Organisations (SCVO) are leading a UK wide innovative programme, supported by the Big Lottery, to promote the use of the SDGs to frame policy and long term thinking in the Third and Voluntary sector.

Trust in government in Scotland remains relatively high, but we cannot be complacent. At a time when trust in governments and institutions is under pressure around the world and in a year when democracy went backwards in more than 100 countries, Open Government Partnership offers us an internationally credible framework within which to consider reforms and to share learning with other governments.

**OGP Pioneer Programme**

OGP issued a call for sub-national governments to join the partnership to bring in more diverse political leadership and open government innovations. Scotland applied and was among 15 selected. Appendix 2, it includes islands, regions provinces and cities (annex 2). (The application, signed by the then Cabinet Secretary for Finance and Constitution, the Scottish Action Plan can be found at opengovpartnership). The Pioneers are all working with OGP directly, with their own civil society and NGOs to deliver a national action plan that fulfil the criteria and addresses some of the grand challenges. Plans were launched in Paris December 2016 and will be implemented and independently reported upon in early 2018.

In creating the Pioneer programme, OGP acknowledged that State governments had not yet been effective in applying open government actions to tackle many of the issues that most directly impact on people’s lives. This was an opportunity to test out whether other levels of government could be more effective.

**Scotland as OGP Pioneer**

Scotland is beginning its open government journey, during the year as a pioneer there is an opportunity for us to share learning with OGP countries and other Pioneer governments to shape the outcomes from the action plan commitments. Additionally, we will consider how best involvement in OGP can, for the future, deliver the First Ministers ambition to have “An outward looking Government which is more open and accessible to Scotland’s people than ever before”.
Scotland’s Action Plan was restricted to five commitments that were designed to be transformative, with the involvement of civil society with a network of about a hundred individuals and organisations developed and coordinated by SCVO. The commitments are as follows:

1. Measuring 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
2. Explaining how our public finances work in Scotland
3. Improving participation in the work of government and public service
4. Delivering the Fairer Scotland action plan
5. Participatory budgeting: establish a framework to empower communities through influence over some budgets

**Can Open Government Pioneer status offer opportunities for the Budget Process Review?**

While commitments 2, 3 and 5 have particular relevance to the work of the Budget Process Review Group. The framework that Open Government Partnership, overall, provides an effective mechanism to target reforms in all parts of the system and to develop them with civil society and citizens. Future Scottish OGP action plans could include commitments to embed open government principles of openness, transparency and citizen involvement in all of our work to reform public services including in the budget process. Work on the Scottish Action Plan may also offer opportunities to increase openness, transparency and increase the involvement of people.

**Identifying ways to involve stakeholders and citizens in the budget process**

In the executive summary of the BPRG interim paper it says that ‘One of the key principles is to enable public participation in setting priorities for expenditure’. It is currently far from clear how that is being done in any systematic way, other than by exercising voting preferences every 5 years. The public discussions held by the Finance Sub Committee during the budget process are a useful step on the way, but it would be possible to take a system wide approach to involving the public proportionately and effectively at points through the budget cycle when there would be clear a benefit for the process, to increase public trust and to build awareness of the budget process. The budget cycle suggested by Audit Scotland in the Interim Report (page 17) provides a useful framework for staged and long term thinking. Alongside this, OGP network could, during the pioneer year, convene groups of experts, interested stakeholders and citizens to consider what effective citizen engagement at each point in the cycle might be.

In addition to increasing understanding and awareness; it could provide decision makers with an early view of public response to shifts in priority and to enable citizens to assess whether or not spending decisions are delivering the predicted outcomes.

**Exploring Participatory Budgeting**

OGP commitment 2, to provide financial information that is coherent, consistent and in a format that is useful to communities, the 3rd sector, business and citizens will help
articulate the complexities of financial decision making throughout the budget cycle. In addition, it will support the work on the OGP commitment 5 on participatory budgeting [PB].

Currently the PB programme is designed to support the community empowerment agenda at a local level and there are no plans to develop a participatory budgeting approach for the overall Scottish Government budget. None the less, what PB provides are effective mechanisms for public involvement in financial decision making. The current PB and Community Choices programme will include consideration of how national budget information can complement participatory budgeting at local levels, but it could also begin to explore with citizens the potential that the process might offer for some level of citizen engagement in setting spending priorities at national level.

Learning from OGP members

Learning from other OGP countries and pioneers can also be facilitated. In their last plan the USA made a commitment to provide its financial information on open source platforms to enable users to choose how the data is used. While a number of governments, at local and national level, have worked with their civil society to provide platforms for financial information that is clear, consistent and accessible to citizens; some of these are highlighted in SCVO’s submission. Additionally, we can provide information on the kinds of commitments made by other OGP countries on fiscal transparency as well as making relevant links to OGP governments or international NGOs to share learning on best practise. There is potential to engage further with the OGP-Fiscal Openness Working Group (FOWG), which is coordinated by the Global Institute for Financial Transparency (GIFT). The FOWG was created with the aim of supporting and promoting the implementation of budget and fiscal transparency commitments made by OGP governments. To this date, countries have agreed to implement 360 fiscal openness commitments that go from making fiscal information accessible to any activities that involve public participation in policy development or implementation.

Improving the information flow

Information and data are key building blocks to improving understanding the work of government and providing modern scrutiny and accountability arrangements with the Scottish Parliament around Scottish public sector finances. Through its commitments in the OGP action plan Scottish Government will seek to improve the presentation and clarity of the financial, procurement and commercial information it publishes so that members of the public can understand it better. This will advance its commitment to all four OGP values of Transparency, Accountability, Participation and Technology & Innovation. Resulting in the clarity, format and range of publically available information being enhanced. Co-designing this with end users will draw on the expertise in the OGP network in Scotland. This commitment will help to promote fiscal literacy in Scotland.

Citizens Economic Council
The is also an opportunity to learn from elsewhere in the UK. The Royal Society of the Arts are investing in a major 2 year programme called the Citizens' Economic Council, giving citizens a say on national economic policy, and influence the future of the UK economy to build a stronger economic democracy in the UK through informed engagement and discuss (see at [The rsa citizens economic council](#)). The process is being overseen by a steering group with experts in citizen participation as well as an independent advisory group of economists ([RSA council advisors](#)). The Council aims to promote fiscal literacy and be a catalyst for sparking a broader public discussion about the goals and priorities of economic policy, through an open online resource library and by promoting citizen deliberation over economic policy at events in communities up and down the country. The OGP team has built links and a relationship with the programme and could facilitate important learning from it for the Budget Process Review Group.

**Conclusions**

Open Government Partnership pioneer status gives Scotland an opportunity to draw on international learning and best practice and provides a framework to build a long term reform strategy with civil society and citizens. This could actively support the work of the Budget Review in a number of ways.

- The current commitments in the Scottish Action Plan will deliver improved flows of financial information and data both from Government and Parliament, which will support increased understanding of the budget process and the potential offered by participatory budgeting processes.
- The OGP team could provide some support for dialogue with stakeholders and citizens to begin the work to develop a consistent approach to citizen engagement throughout the budget process.
- Consistent citizen involvement with the budget could be structured to support short, medium and long term consideration of the budget to deliver on Scotland’s Economic Strategy, improve performance against the national outcomes and towards meeting the Strategic Development Goals.
- That engagement with citizens and civil society, could frame commitments for future Scottish OGP Action plans, which help promote modern scrutiny mechanisms to maintain public trust in the Scottish budget process as we move into being a tax and spend authority.
Annex 1
Open Government Partnership
Criteria and Grand Challenges for Membership

The UK was a founder member which means that Scotland has already met the core criteria for membership of OGP. They are as follows:

• **fiscal transparency** – which includes the timely publication of essential budget documents forms the basic building blocks of budget accountability and an open and accessible budget system
• **access to information** – requiring an access to information law, that guarantees the public’s right to information and access to government data is essential to the spirit and practice of open government
• **disclosures related to elected or senior public officials** – setting clear rules that require public disclosure of income and assets for elected and senior public officials are essential to anti-corruption and open, accountable government
• **citizen engagement** – open government requires openness to citizen participation and engagement in policy making and governance, including basic protections for civil liberties

The **challenges adopted in 2013 were seeking to improve the impact of national action plans:**

• **Improve public services** – measures that address the full spectrum of citizen services including health, education, criminal justice, water, electricity, telecommunications and any other relevant service areas, by fostering public service improvement or private sector Innovation
• **Increase public integrity** – measures that address corruption and public ethics, access to information, campaign finance reform, and media and civil society freedom
• **More effectively managing public resources** – measures that address budgets, procurement, natural resources and foreign assistance
• **Creating safer communities** – measures that address public safety, the security sector, disaster and crisis response, and environmental threats
• **Increasing corporate accountability** – measures that address corporate responsibility on issues such as the environment, anti-corruption, consumer protection and community engagement

Appendix 2

**Live links to the applications and plans for the 15 OGP Pioneer Programme Governments**

[**Austin, United States**; **Bojonegoro, Indonesia**; **Buenos Aires, Argentina**; **Elgeyo Marakwet, Kenya**; **Jalisco, Mexico**; **Kigoma, Tanzania**; **La Libertad, Peru**; **Madrid, Spain**; **Ontario, Canada**; **Paris, France**; **Sao Paulo, Brazil**; **Scotland, United Kingdom**; **Sekondi-Takoradi, Ghana**; **Seoul, South Korea**; **Tbilisi, Georgia**]
Written Response from Public Audit and Post-legislative Scrutiny Committee

Our response focusses on the question: “In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?”

- No Public Audit Committee has previously taken part in the Parliament's annual scrutiny of Scottish Government Draft Budgets. However, we welcome the report’s focus on issues such as: performance reporting; linking spend to outcomes; value for money; longer-term financial planning; etc, as these are all core issues for Audit Scotland and this Committee. The Committee would be willing to contribute, in an appropriate manner, to the future scrutiny of draft budgets. For example, it may be feasible to highlight to the Finance Committee any key, recurring messages that have arisen from the Audit Committee’s scrutiny of Auditor General reports. This may help to inform subject committees’ scrutiny of future draft budgets by highlighting where previous spending has or has not had an impact;

- The consultation document focuses on Audit Scotland performance audits and states that “There may be opportunities for the subject committees to make more use of performance audits”. The Committee welcomes this recommendation – which has been a feature of this session in any case – but makes clear this entails committees working more closely together and ensuring that our scrutiny adds value. We also wish to restate the convention that this Committee always considers Auditor General reports before any other committee;

- The interim report focuses on Audit Scotland’s performance audits, which is legitimate, but we also highlight Audit Scotland’s annual audits of public bodies. These audits comment on bodies’ performance and consider issues such as: are services improving? Is governance effective?¹ As it is

¹ These are not scrutinised by the Public Audit and Post-Legislative Scrutiny Committee unless they suggest an issue or problem with the body in question i.e. a section 22 report.
increasingly common for subject committees to undertake in-depth scrutiny of public bodies within their remit, including from a financial perspective, annual audits could provide a useful starting point for such work. This issue is also relevant to the review group’s desire to encourage ongoing financial scrutiny;

- Audit Scotland reports help the Parliament and committees to undertake scrutiny of the Scottish Government and public bodies. There are few committees with cross-cutting remits. This creates a potential risk that major cross-cutting Scottish Government initiatives/policies are not fully scrutinised or are considered on a piecemeal basis by other committees. Therefore, there seems to be merit in asking whether Audit Scotland’s reports could take greater account of key, cross-cutting Scottish Government priorities such as preventative spending and the principles established in the Christie Commission report. These are key themes for future committee scrutiny, including financial scrutiny;

- The interim report discusses (paragraph 27 onwards) a potential ‘full year approach’ to budgetary scrutiny. There is mention of financial scrutiny of the Scottish Government’s accounts and a later reference to consolidated accounts for the whole of the Scottish public sector (paragraph 85). The Audit Committee has considered, for the past three years, Auditor General reports on the Scottish Government’s consolidated accounts. Such accounts could be seen as the culmination of the annual budget cycle. However, little connection has been made between the Audit Committee’s scrutiny of this document, and subject committees’ prior scrutiny of spending proposals. Therefore, the review group could consider how committees could be more joined up in their scrutiny of the budgetary ‘cycle’;

- In general, there may be opportunities for committees’ and Audit Scotland’s work programmes to be more closely integrated, with the aim of improving scrutiny – Audit Scotland and parliamentary committees are both concerned with scrutinising and reporting on the Scottish Government and public bodies, in order to try to improve public services;

- The report notes that the Auditor General is responsible for determining the programme of performance audits. The Auditor General cannot be directed by the Parliament, but must take into account any proposals made by the Parliament. In order to make committees and Audit Scotland more integrated, the Audit Committee intends to write periodically to other committees to ask whether any major, recurring themes have arisen from their scrutiny. The Audit Committee will then highlight suggestions received to the Auditor General, in order to inform her future audits;
Audit Scotland reports on a particular topic sometimes raise concerns or make recommendations that may be relevant to the wider public sector. This raises the question of whether committees – in undertaking financial or bill scrutiny, for example – could ask the Scottish Government how it has taken account of any relevant messages from audits in developing its policy. The aim would be to try to identify and prevent any financial or governance issues arising at the outset, rather than deal with these retrospectively through a performance audit;

The Scottish Parliament and its committees hold to account the Scottish Government, not individual local authorities. However, local authorities are responsible for spending a very sizeable proportion of the Scottish budget and have a crucial role to play in delivering key Scottish Government priorities such as closing the education attainment gap. It is therefore vital that committees understand how local authorities are performing collectively, so that they can better hold the Scottish Government to account. We are not clear, however, whether there is a coordinated and consistent approach across committees to undertaking such scrutiny. This may be an issue the review group could discuss further with Audit Scotland and the Accounts Commission.

Regards,

Jenny Marra MSP
Convener of the Committee
Written Response from Rural Economy and Connectivity Committee

The Committee discussed views provided by individual members on the issues raised in the report at its meeting on 19 April and agreed that these should be forwarded to you for consideration. These are detailed in the attached Annexe.

However, the Committee also agreed that I should make clear that these represent the views of those individual members only and not the collective view of the Committee.

I look forward to seeing further output from the Budget Process Review Group in due course.

Yours sincerely,

Edward Mountain
Convener

ANNEXE

BUDGET PROCESS REVIEW GROUP INTERIM REPORT – COMMENTS RECEIVED FROM INDIVIDUAL MEMBERS OF THE RURAL ECONOMY AND CONNECTIVITY COMMITTEE

Following receipt of the Interim Report of the Budget Process Review Group, REC Committee members were invited to submit comments on how the process of budget scrutiny by committees might be improved. The following comments were received:

Rhoda Grant
• Lack of transparency:
  o Even when level 4 figures are provided it is difficult to see how this affects services on the ground, due to service changes, efficiency savings and differential inflation.
  o Funding streams can change and this is not signposted to enable comparisons to previous years – this should be part of the budget document. o Scottish Government can find money for additional projects and asks at stage 3 without actually taking anything out of their budget. Government should be clear what money they are holding over so that committees could suggest how this be spent. Currently committees can only suggest spending if they stop other spending.

• Lack of clarity:
  o If it is impenetrable for committees it is almost impossible for small organisations or individuals to comment, hence budget scrutiny is left to economists and large organisations which in itself skews evidence.

• Lack of time:
  o The time allowed for the budget process does not allow scrutiny – could it be that the government publish their plans and direction of travel with indicative figures much earlier, with the understanding that with UK budgets and spending reviews that that will change, albeit where additional money is likely to be spent.

Edward Mountain

• Effectiveness of committee budget scrutiny
  o To date, the scrutiny of the SG draft budget by committees has been broadly ineffective and has not led to any meaningful changes.

  o This is in the main due to the fact that scrutiny has, in general, focussed on the published draft budget. This has meant that the SG has been reluctant to accept any changes in expenditure proposed by committees.

  o Budget scrutiny is hugely resource-intensive, both for committees themselves and their stakeholders but the impact of this work has been negligible

  o If we are to seek meaningful improvements in the effectiveness of budget scrutiny, this needs to be acknowledged. o There is little point in tinkering around the edges, shifting existing, ineffective scrutiny processes to a
slightly different timetable to fit with the draft budget publication schedule. If we are to be genuinely effective, more radical change is required.

• Committees should seek to **influence** spending priorities. **Rather than being responsive to expenditure proposals set out in the draft budget as at present,** a process should be identified which would allow committees to seek to influence the Scottish Government’s spending priorities before these are agreed.

  o One way of doing this would be for committees to conduct budget scrutiny in advance of any SG Spending Review.
  o This could be outcome focussed e.g how effective has spend in a particular policy area been in the previous SR period and has expenditure been sufficient to meet the SG’s policy objectives?
  o Once such an assessment has been made, committees would be able to produce recommendations to be taken into account by the SG as part of its Spending Review and, crucially, before final decisions are made on the spending proposals to be included in the draft budget.
  o Such an approach would require co-operation of the SG to provide advance notification to committees of its intention to conduct a Spending Review.
  o After the completion of a Spending Review, budget scrutiny for the remaining years of a SR period could be less resource-intensive, perhaps focussing only on notable changes that have been made to expenditure proposals set out at the beginning of the period.

  This would have the effect of concentrating the financial scrutiny work of committees in a Spending Review year when it has an opportunity to influence the SG’s spending decisions, with a lighter touch being taken in other years.
Written Response from Scottish Council for Voluntary Organisations

Our position

1. A budget process that brought to the table people from across Scotland would bring new ideas to the budget; ensure that spending priorities reflected the needs of people and communities; and be democratic.

2. Year-round budgetary discussions would help ensure the third sector would not be subject to short-term funding commitments that hamper their long-term planning.

3. Scotland should ensure that its National Performance Framework, equality impact assessments and other outcomes-focussed tools inform budgeting decisions before they are made.

4. The Open Government agenda can help Scotland achieve a more public approach to budgeting decisions, given Scotland’s position as a Pioneer for Open Government.

Summary

To shape better outcomes, an open and participative approach to policymaking should be mainstreamed throughout Scottish public policy. This must include Scotland’s budget process, which is in need of widespread reform.

The Review Group can use this opportunity to make certain that Scotland’s future budgets are increasingly conducted openly, created in partnership with communities, and scrutinised by society as a whole. We firmly believe this will lead to better budgetary decision-making.

Furthermore, the National Performance Framework, equality impact assessments and other outcomes-focussed tools must be used to inform budgeting decisions before they are made, not just as a way to review performance afterwards.

Finally, the Review Group convenes at a time when Scotland has just become a Pioneer for Open Government, selected by the Open Government Partnership. If Scotland is to live up to this newfound position on the global stage, then we must seriously explore the practice of open budgeting as a means to challenge the status quo.

Our response

SCVO welcomes the opportunity to respond to this enquiry. Rather than responding to all of the Group’s questions, we focus on the Review Group’s themes, covering alternative,
more participative ways of forming the overall budget; the positive impact this could have on the third sector compared to current practice; and the role of outcomes-based decision making. Finally, we end with a discussion of how an Open Government approach to the budgeting process could work.

Introduction

Although we are twenty years on from devolution, many spending decisions are still being made privately and not always to the benefit of the poorest in our society. Yet work such as that carried out by the Poverty Truth Commission and Oxfam Scotland’s Humankind Index show that by going to individuals and communities directly, a range of voices can be heard and ideas gathered, even on complex issues. It is this kind of work that a wider approach to budget-making can emulate and engage in, in order to make the very best spending decisions for everybody. By drawing on the expertise of people with their own unique lived experiences, we can really build a budget that reflects the needs of everyone.

We therefore hope that the Review Group works with civil society and the public to really widen out the number and range of people involved in the budget-making process, so that the budget reflects the population as a whole.

Theme 1

The need for genuine public engagement

Given the high level of democratic engagement that Scotland enjoys, now is an excellent time to bring people from all walks of life into the budget process, and we welcome the Review Group’s interest in genuine pre-budget engagement. This should be done in such a way that ensures all members of the public can engage; whilst pre-budget meetings for ourselves and other third sector organisations with Ministers and officials have been welcome, these should not be the only way for communities to feed into the budget process before the draft budget is published.

By opening up the budget process at all levels to the general public, we will begin to involve a broad cross-section of society in budgeting conversations, widening the pool of people supported to input into budgetary decisions, and ensuring that such decisions are made on the basis of the widest possible range of experiences. This will not only help people to look at the whole so that they get a greater understanding of budgetary options, but could also help people to avoid making knee-jerk reactions to local and national budgetary decisions. Such a process will also bring new ideas to the table, and should ensure that spending fully reflects the needs of people and communities.

We take this opportunity to emphasise here the expertise that everyone has that is relevant to budget-decisions – all people have their own lived experience, and they should have the opportunity to bring that knowledge to bear during the budget-making process. Such a wider approach will ensure that we have much greater width and depth of knowledge and experience informing budgeting making. This will lead, ultimately, to improved budgets that work for all people in Scotland.
Themes 1 and 3

Third sector engagement in the budget and spending review

At the moment, SCVO and others in the sector do indeed engage with the budget and spending review processes. Each year for the past three years we have met with the relevant Ministers and civil servants to discuss the budget ahead of the draft budget announcement. We have also, like so many of our members, submitted responses to the relevant parliamentary committees on spending, and have given oral evidence in past years. However, it is not always clear what impact such engagement has made on decisions at either Government or Parliamentary level. Whilst our sector has had noticeable ‘wins’ in the past, ideally we would all be able to engage in genuine discussions with decision-makers around the budget as it is being formed, which would lead to well-thought-through, balanced budgeting decisions.

SCVO also currently works with a range of third sector umbrella bodies from across the UK, mainly England-based, to influence the UK budget and spending review. Through that process we receive some engagement from the relevant UK Ministers and civil servants. However, the process is very traditional, and there is no sense there of any conversation around the decisions being opened up to individual citizens. A more genuinely publically engaged budgeting process here in Scotland, if taken on, would demonstrate a clear alternative to the closed UK-level approach.

Theme 4

Medium-term financial planning – negative impact on third sector organisations

We often hear from Government at both national and local level about the difficulty they face regarding short-term budget-setting from the UK Government and Scottish Government respectively. However, this is nothing compared to the impact of short-term budget setting on our members, many of whom routinely issue redundancy notices as they wait to hear whether their service or funding is to be renewed in the coming year. This has a significant knock-on impact on long-term planning and strategic decision-making within organisations, not to mention being incredibly difficult for staff, volunteers and beneficiaries.

Governments of all colours have previously promised longer-term funding for the sector, and we’re pleased to see the current Government beginning to implement this in some areas; but with a longer-term outlook to all budget-setting, and real engagement with the sector on a long-term basis, we need this to become the norm. Without it, the third sector will continue to suffer disproportionately from delayed budgeting decisions. Moreover, slow, lengthy, and/or unnecessarily complex procurement processes also need to be resolved. Again, these feed into the regular issuing of redundancy notices for those who work in the sector, and make forward planning incredibly difficult.

An approach that enabled medium-term financial planning by Government, coupled with a more open approach to budget setting and other financial planning processes (including
strategic commissioning and procurement) at all levels, could be used to help ensure that such negative impacts become a thing of the past.

**Theme 5**

**Outcomes-based scrutiny**

We are unsure as to whether the NPF, the equality impact assessments, or, indeed, any other outcomes-based measurement tools, have really altered any strategies, policies, or spending decisions in relation to the budget-setting process. As the point of these tools is surely to improve the lives of people living in Scotland, it is essential that they actually alter the choices made by decision-makers, rather than just being seen as an add-on or post-decision-making scrutiny tool.

Moreover, there is a further role as part of the Scottish Government’s Open Government Pioneer Status (see below), for Government to make the data used to inform the likes of the NPF widely accessible. We welcome the plans by Scottish Government to secure greater financial transparency as part of their Pioneer Action Plan, and the intention within this to integrate the NPF with Sustainable Development Goals and the Scottish National Action Plan on Human Rights. This will provide the opportunity for members of the public to scrutinise that data themselves, should they so wish, enabling them to also provide solutions and insights to create informed budget-setting options.

**One option – open budgeting**

In April 2016 Scotland was selected by the Open Government Partnership as one of 15 Pioneer governments. Scotland’s first Open Government National Action Plan, published in December 2016, sets out the commitments the Scottish Government has pledged to deliver as Pioneers of open government to improve the lives of people living in Scotland. Greater financial transparency is one of those commitments, including ‘consideration of how national budget information could complement participatory budgeting at local and national levels’. Moreover, the OECD's Recommendation on Budgetary Governance explicitly calls for governments to ‘provide for an inclusive, participative and realistic debate on budgetary choices’. Pioneer Status, coupled with the Scottish Government’s commitment to greater financial transparency in the National Action Plan, presents an opportunity to propose significant reforms in order to meet this recommendation.

Open budgeting is now internationally accepted best practice and has been adopted by governments of all sizes. It is our view that a move to open budgeting is not only a logical addition to the ‘Scottish Approach’ to government, but also a necessary response to what works elsewhere in the world.

The Review Group should look to the work of the Open Government Partnership (OGP), the Global Initiative of Fiscal Transparency (GIFT), and the International Budget Partnership (IBP) to assess how the growing evidence of open budgeting from across the
world can have relevance to Scotland. Some examples of best practice within the Open Government Partnership are found below:

- **Mexico** established a budget transparency portal. This “one stop shop” for budget information ensures citizens and decision makers have the tools to monitor the use of public resources, improve their allocation and ultimately increase their social value.
- **Madrid** established ‘Decide Madrid’, a participatory budgeting tool. The Spanish capital has reserved 60 million euro for investments assigned to the yearly budget for the people of Madrid to decide how the money is spent.
- Each year the **City of Cincinnati** asks for citizens’ feedback on the proposed budget. As part of that process the City looks for ways to better engage with the community and broaden its outreach. The budget engagement process includes ‘budget basics’ presentations, videos, surveys, public forums and a summary of what people have submitted as an idea for a project in their community.

**Reflections on how an open budgeting approach could work**

The proposals below build on a roundtable discussion held at the Scottish Parliament on ‘opening up participation in national decisions’ in December 2016. The event was hosted by Scotland’s Futures Forum, and organised by SCVO and What Works Scotland.

The discussion was intended to gauge interest in a proposal to pilot participative budgeting with citizens and Scotland’s national budget. Participants included the Minister for community empowerment and local government, the Scottish Labour democracy spokesperson, and the vice-chair of the Scottish Youth Parliament. Other participants were drawn from civil society, academia and government. There were guest contributions from the Chair of the UK Participatory Budgeting Network and the Scottish Parliament Information service (SPiCe).

An emerging consensus was that participatory budgeting could be a practical way to meaningfully open up participation and create a more direct link between government and citizens. It also offered a way to strategically cut across budget ‘silos’ by viewing the budget in its entirety – which is difficult for politicians to do when managing interests in specific areas of spend.

However, scale would be important – can participatory processes which have thus far only really been tested at very local level scale up to national decisions such as the budget? National budgets can be hard to get into, as there is not much spending lee-way. Any attempt to open up the budget to participation needs to be genuine and have real impact – a sure-fire way to lose people’s trust would be to pay lip-service to the concept.

Some core principles would be important. Participation should have a strong pro-poor (anti-poverty) design and focus on tackling inequalities. To avoid populism, everyone from people with disabilities, to refugees and minority communities need to be involved. Even in participatory approaches, vested interests will still pipe in. Who are the intermediaries? Who are the winners and losers? We would need to learn from the successes and challenges in the introduction of the equalities budget statement process which accompanies the Scottish budget.
Interestingly, a more participative approach to national budgets need not undermine electoral democracy. It was recognised that participatory democracy can re-legitimise representative democracy at a time when the latter now needs to evolve. Key to this would be differentiating between the offer of direct citizen participation and representative government in political party manifestos during elections.

As highlighted above, we are not starting from a blank piece of paper. International examples are plenty – following the pioneering work in the region of Porto De-Legre, Brazil, there are now 20,000 participatory budgeting activities in over 40 countries. The Mexico Budget portal is a recent example of the scale of commitment possible to opening up national budgets to participation through web-based technologies.

Next steps:

If we are serious about opening up the budget and building trust in how government spends our money, then we should consider a national programme for participation in the national budget. Clearly we would need conceptual clarity on what a national programme will intend to achieve. Any approach would need to be grounded in evidence that this could work. We ought to build on what resources and assets are already out there. And we should not bother unless our attempt to open up the budget process is designed to be transformative for Scotland. In fact, participatory national budgeting may need to be preceded by participatory national outcomes.

Practical options from SCVO to take forward open budgeting:

One option, discussed at the roundtable mentioned above, would be to develop a web-based budget portal focusing on a simplified model of Scotland’s budget, with various overlays looking at the budget from different perspectives such as human-rights, prevention, climate change, gender, tackling poverty and inequality, and so on. Alongside this, an open, crowd-sourced discussion about the budget, informed by the budget portal, could also take place, and this could be used to inform budgeting decisions.

Secondly, as we have said already, it is vital in this process to reach out to others. Decision makers must visit communities across the country, learn from the Poverty Truth Commission and Oxfam Scotland, and work with civil society to move beyond the usual voices and discover what other communities and individuals actually want to see from the budget. There, they can work with those communities; hold facilitated, deliberative discussions to help everyone understand the budget; and take into consideration the ideas, suggestions, and priorities that emerge.

Conclusion

As we have discussed above, a budget process that engaged, year round, with individuals across Scotland, could bring new ideas to the table, and ensure that spending decisions reflect the needs of all. It should also genuinely engage with people and communities who don’t usually take part in such discussions. Such an approach would be very different to that pursued by, for example, the UK Government, but would chime with global best-practice.
A longer-term approach to budget setting and review would also support the third sector in its work, and could help prevent the continual merry-go-round of funding applications that so many of our members have no choice but to go through year after year – with all of the associated impact that has on staff, volunteers, services and organisations’ own ability to plan for the long-term.

Furthermore, it is important that decision-makers use current outcomes-focused tools such as the NPF and equality impact assessments to impact budget and policy decisions before they are made, rather than merely using them as a post-decision review tool.

Finally, Scotland's first ever Open Government National Action Plan makes this the ideal time to address blocks to financial transparency – issues that the Scottish Government has committed to address.

### About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £4.9 billion.

We work to the following mission: To support people to take voluntary action to help themselves and others, and to bring about social change.

We have over 1,600 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1,600 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland
- SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.

### Contact

Jenny Bloomfield

Policy officer
Written Response from Scottish Fiscal Commission

Dear Jim,

As you know, the Scottish Fiscal Commission is now established as an Independent Fiscal Institution (IFI) to support the Scottish Budget Process. Our existing remit covers the production of independent forecasts for Scottish GDP, Scottish devolved taxes and devolved demand-led social security payments. Our primary focus now is on delivering on our new statutory remit as set out in the Scottish Fiscal Commission Act 2016, in 2017-18 and beyond.

Our Interim Chief Executive was part of the group of external experts supporting the Budget Process Review Group (BPRG). As part of the BPRG’s consultation, there was a reference to the role of the Commission with regard to medium-term financial planning.

IFIs have varied roles in different countries, dependent on the needs of the legislature, the executive and the fiscal landscape. While I didn’t feel it was appropriate for the Commission to respond at this stage to the formal consultation, I would like the Group to note that the Commission will engage positively with the Scottish Government and Parliament should any change in remit be proposed as part of the Group’s final recommendations, consistent with our role as Scotland’s IFI.

I have copied this letter to the Convener of the Finance and Constitution Committee and the Cabinet Secretary for Finance and Constitution.

Best wishes,

Susan Rice CBE
Theme 1 – How effective is the existing budget process?

Question 1: What adjustments do you consider are required to the existing Financial Issues Advisory Group (FIAG) principles to support a world class financial scrutiny process for Scotland in 2017?

Proposed Response: The Council recognises the issue of applying national principles to a devolved administration but believes that parliamentary scrutiny should be as transparent and robust as possible. Consideration should be given on the extent to which the Organisation for Economic Cooperation and Development (OECD) principles, once they are finalised, could be delivered in a devolved government model.

Question 2: Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

Proposed Response: It is believed that a full year approach to budget scrutiny would be an improvement on the current approach and the approach outlined by Audit Scotland seems sensible. However, it would be important that careful consideration be given to the impact of this intensity of scrutiny on the operation and resource planning of specific bodies like councils and also on partnership working and so any committee based scrutiny might be better based on a thematic outcome approach.

Question 3: How effective is current public engagement in the budget process and how can this be improved?

Proposed Response: As stated in the Interim report, given the Budget process tends to focus on high level revenue and resource decisions, it is difficult to see the how it can engage with the public in any meaningful way. Current engagement is not proactive and goes against the principles of Community Empowerment.

Question 4: What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

Proposed Response: The Council has found the Participatory Budgeting process a useful approach to reflecting local needs and aspirations for service delivery and raising understanding and awareness of the challenges of resource allocation. The Community Empowerment Act will present challenges for local partnerships – especially where local priorities for spending do not align with the outcomes being looked for by the Scottish Government.

At a local level South Lanarkshire consults with its citizens annually as an integral part of the budget setting process. It is important that consultation is inclusive and accessible. Examples within South Lanarkshire include face to face consultation involving representatives from the Citizen’s Panel, as well as with specific interest groups including disability groups, and ethnic minority groups. The public were also asked for their views on the budget proposals through a dedicated e-mail address, or by writing into the Council.

Question 5: What should be the purpose of public engagement on the Scottish Budget?
Proposed Response: Given the high level nature of the budget, the purpose of public engagement on the Scottish Budget may be better focused around performance against outcomes and value for money to maintain confidence in the decision making process and its ability to deliver.

**Proposed Response:** Given the high level nature of the budget, the purpose of public engagement on the Scottish Budget may be better focused around performance against outcomes and value for money to maintain confidence in the decision making process and its ability to deliver.

**Question 6: What should be the core objectives of parliamentary scrutiny of the draft budget?**

Proposed Response: At its core, the objectives of parliamentary scrutiny of the draft budget need to be examining and challenging the Executive. It is acknowledged that there is a difficulty in aligning policy objectives and available funding in an environment of limited resources.

**Question 7: How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?**

Proposed Response: In terms of improvements, international experience would tend to suggest that a minimum of three to four months is required for the approval of the budget on the basis of meaningful analysis and scrutiny and it could be argued that the budget should also be tabled sufficiently in advance of the fiscal year to which it relates in order to ensure that the decisions that are taken matter. Scrutiny by the Parliament will be materially affected by the extent to which it has access to research capacity and information. It is also important to recognise that the influence of parliamentary scrutiny is to a large extent determined by party politics and dynamics.

**Question 8: How does the new UK Autumn budget process affect the timing of the Draft Budget?**

Proposed Response: As pointed out the timing of the new UK budget process is likely to be critical to the timing of the Draft Budget, the scrutiny process and the consequential impact on public bodies and their budget considerations. In recent years the process has complicated the budget considerations of the Council – both in terms of its overall budget but also in terms of its decision making – and this in turn can lead to an increasing degree of uncertainty for service users and deliverers.

**Question 9: In what ways can the level of transparency of the draft budget and other budget documents be improved?**

Proposed Response: One of the issues experienced in relation to the existing documentation is the lack of detail contained in initial settlement information, and in some cases the accuracy of the data. Lack of detail, combined with drip-fed information within timescales that are crucial to local authority budget setting can cause significant issues for local authorities setting Council Tax and budgets within statutory timescales.

Another issue is the constraints that a portfolio based approach can bring – the recent divergence of views on the level of local government funding is an example of a situation where confusion exists not only amongst the professionals but amongst the public.

At present information is not available to Councils in advance of the budget announcement – this makes it impossible to allow early scrutiny of the detail.
**Question 10:** How effective is the existing Budget Bill process and what, if any, changes are required?

**Proposed Response:** Any judgement of the effectiveness of the existing process is dependent to an extent on what the aims and objectives of it are. As the interim report states the Budget Bill is largely technical exercise and is the way in which the budget is given legislative effect. The existing process allows for minimal time for debate, which would be acceptable provided the relevant parties were involved in the full cycle of budget preparation.

**Question 11:** Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

**Proposed Response:** In order to ensure coherence, it is believed that non-Government amendments should only be proposed at the pre-legislative stage with the focus perhaps on adjustments within Portfolio lines rather than at the aggregate level to ensure fiscal coherence.

**Question 12:** If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

**Proposed Response:** Not applicable

**Theme 2: What is the impact of the Fiscal Framework?**

**Question 13:** What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

**Question 14:** How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

**Proposed Response (Q13 and Q14):** As the interim report states, the operation of the Fiscal Framework will be extremely complicated and making it understood to the community at large is bound to be extremely challenging. On balance, it would probably be helpful for it to be considered as part of the Budget process rather than separately given the likely political nature of any debate around the framework itself.

There is a need for a longer term financial planning framework to smooth potential volatility.
Theme 3: How effective is the current approach to Multi-Year Budgeting?

**Question 15:** What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

**Proposed Response:** The Council believes that Spending Reviews should be an integral part of the budget process but should be selective rather than comprehensive, and should generally be efficiency reviews, not focused on a public service reform agenda. There would be a benefit to joint reviews involving those with strong policy skills and knowledge of the area being reviewed.

**Question 16:** What level of information should the Scottish Government publish?

**Proposed Response:** The focus should be on being as transparent as possible and for any information being supplied to be capable of being easily understood and placed in a policy context.

The Scottish Government does not currently publish multi-year budgets. As the UK wide position is based on a five year period it would be appropriate for the Scottish Government to follow a similar pattern. At present, it is difficult to make the best long-term strategy decisions when these need to be made based on single year settlement data.

In order to support effective planning at a local service level consideration could be given to a rolling settlement model, i.e. Allocations provided for a three year rolling period with Year 1 being fixed and Years 2 and 3 indicative, with limited scope for change within an agreed framework including allowance for any exceptional issues arising.

A multi-year budget from the Scottish Government that aligns across the various streams of the public sector would be beneficial for development of partnership working.

**Question 17:** What should be the role of the parliament’s committees in scrutinising Spending Reviews?

**Proposed Response:** If the reviews are selective then the appropriate committees should be engaged as much as possible in determining the remit and scope of any reviews and in seeking to ensure the widest possible engagement in the review – especially in respect of determining any wider impacts of the review that may have been overlooked.

Financial plans should be linked to the parliamentary terms with allowance for hiatus in the first year of a new parliament.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

**Question 18:** Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?
**Proposed Response:** It would be helpful to have a medium term financial strategy and the Council supports the comment made by the Fraser of Allander Institute in respect of the need for an overall strategy outlining the role that fiscal policy will play in achieving the Scottish Government’s objectives.

**Question 19:** If so, what should it include, what should be the role of the Scottish Fiscal Committee in its preparation and how frequently should it be updated?

**Proposed Response:** Given the fact that both revenue and expenditure are likely to be more volatile than it has been in the past it is important that there can be an informed discussion over the challenges that Scotland may face. It would seem appropriate that it includes projected revenues, funding and spending as well as borrowing and reserves. Consideration could perhaps be given to potentially providing some working assumptions over spending and investment at a more detailed public sector level – NHS, health, police and fire, enterprise, etc. – to help support forward planning. In this regard, an annual publication for a rolling 3 year period may be worthy of consideration.

Effective medium term financial strategy information should include:

- Economic forecasts
- Taxation plans
- A sector split – to reflect parliamentary priorities
- A move away from annualised budgets

Given the range of variables with potential to change over it may be that the strategy should reflect best and worst case scenarios. If public sector bodies were able to base their own strategies around the ‘worst case’ scenarios from the Scottish Government there would be a degree of comfort around longer term planning. This may assist with future planning of reserves – i.e. if a certain level of funding was indicated in advance there may be less of a need for bodies to build up reserves.

It would be helpful if the Scottish Fiscal Commission were able to perform the same role in the budget process as the OBR does for the UK.

**Theme 5: How effective is the current approach to outcomes-based scrutiny?**

**Question 20:** How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?

**Proposed Response:** It is important to recognise that outcomes tend to be achieved over the longer term and so do not necessarily fit with an annual scrutiny time frame. As the Community Empowerment Act takes effect there may arise a dichotomy between a nationally determined outcome based approach and what local communities are prioritising.

The Community Empowerment Act, combined with the potential impact of Community Choices will present significant challenges. The priorities of differing areas within local authorities may become increasingly difficult to reconcile with the overarching priority objectives of the corporate body.

**Question 21:** What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?
Proposed Response: It needs to be recognised that more and more of the outcomes being sought are based on partnership activity - and their co-production with individuals or communities - and so a focus on specific public bodies and budgets in delivering outcomes may be increasingly out of touch with the direction of travel of public services.

At present it is not always clear what is expected in terms of outcomes linked to specific funding streams. Details of what is expected are often subject to delay – causing further issues regarding being able to apply funding towards the intended objective.

**Question 22:** What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the National Performance Framework?

Proposed Response: There may be potential merit in moving away from a Portfolio based approach to reporting to one based around outcomes and the roles played by various bodies.

**Question 23:** What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

Proposed Response: It is important to recognise that sometimes the elements covered in the National Performance Framework are not available at a level which public bodies are able to provide and consideration has to be given to the impact that the Community Empowerment Act is likely to have in placing an emphasis locally on policy areas and objectives that may not fit with what the National Performance Framework expects and how this tension can be reconciled.

**Question 24:** What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

Proposed Response: The role of the Parliament in scrutinising performance should perhaps focus on cross cutting issues undertaken on a partnership basis.

**Question 25:** In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

Proposed Response: The current area based programme of work undertaken by Audit Scotland - and its focus on cross cutting agencies across a number of public bodies – is seen as reflecting the realities of the partnership ways of working being increasingly adopted by the public sector. As in other areas, Audit Scotland could play a key role in the sharing of good practice.

It is important that Audit Scotland encourage the Scottish Government to develop a more robust longer-term approach, in the same way that they would for individual local authorities.

**General Comments on the Scottish Government Budget Process**

For local authority planning purposes it is important to have details of settlement allocations as early as possible in advance of the start of the financial year. Preparation of detailed budgets for the financial year begins at least one year in advance. Delayed notification of
anticipated government funding, in conjunction with single year settlements, means that budget are currently prepared in an environment of great uncertainty.

There is a need for timeous and transparent budget allocations to local authorities as soon as the prevailing policy decisions are confirmed. Prompt, accurate, detailed budget allocation data would greatly assist local authorities with the budget reconciliation and allocation process.

Multi-year settlements / indicative allocations would be of great benefit to local authorities in terms of providing a degree of certainty to the budget planning process. Knowledge of indicative allocations for future years can greatly assist with service planning, and can help to ensure greater efficiency over the longer term.

Due to the increased partnership working and the integrated nature of modern public services it would also be beneficial for local authorities if other public services (e.g. NHS, Fire, Police) were provided with multi-year settlement information wherever possible.

The Review Group should consider the implications that the Community Empowerment Act on scope for financial planning and decision making within local authorities.

At present there are four local authorities who are not represented within the Settlement and Distribution Group that is remitted to have a strategic overview of settlement and distribution issues. A review of the budget setting process should give consideration to a more inclusive approach to funding and distribution issues, and should look to include all authorities in the process in the interests of equity.
Written Response from Social Security Committee

- How effective is the existing budget process?

During scrutiny of the Draft Budget 2017-18, the Committee noted its concerns regarding the limited timescale between publications of the Draft Budget and reporting to the Finance and Constitution Committee, which limited both the extent of scrutiny to one committee meeting and the time for consideration of its report.

The Committee also notes that the changed timing of the publication of the UK Budget to the autumn means that the traditional timescales of Scottish Parliament budget scrutiny would be compressed, and so welcomes the work of the Group in considering options to broaden budget scrutiny approaches, and create transformational change to the budget process.

The Committee also had concerns about the clarity of the draft budget documents for 2017-18, specifically relating to the social security programme costs, stating that:

“there was not sufficient clarity in how the £80 million\(^1\) was described across the Draft Budget documents, including the Level 4 figures, and in particular on what proportion of the £80 million would be allocated to social security programmes.”

“Although the Committee found it helpful to receive information in oral evidence from the Minister as to the main areas where the £80 million would be allocated, the Committee had concerns in relation to understanding how this figure was calculated, and so whether it would be sufficient.”\(^2\)

- What is the impact of the Fiscal Framework?

The Framework sets out a series of rules and arrangements which are required to operationalise the Scottish Parliament's new tax and welfare powers.

\(^1\) In the Draft Budget 2017-18, £80 million was allocated to a central fund for implementing the new powers (which included the Crown Estate, and employability programmes as well as social security programmes).

Although the Social Security Committee’s role includes scrutinising the new welfare powers and associated budget, the substantive part of this process will not begin until the forthcoming introduction of social security legislation and subsequent scrutiny of the enacted Scottish social security system.

On that basis, the Committee did not wish to make specific points for this question.

- How effective is the current approach to Multi-Year Budgeting?

Thus far, the Committee has scrutinised the draft budget within the context of one year (2017-18) in isolation. The Committee found it difficult to scrutinise the Scottish Government’s long term plans for social security on that basis, and strongly recommended use of a longer term cycle in future, whilst also recognising that it is more usual to scrutinise a draft budget that sits within a three year cycle.

- How effective is the current approach to Medium-Term Financial Planning?

The Committee did not cover this topic in its budget scrutiny, and so did not wish to make a response to this question.

- How effective is the current approach to outcome-based scrutiny?

The Committee reported (to the Finance and Constitution Committee) that it found it very difficult to assess the Draft Budget 2017-18 on the outcome-based criteria that the Finance and Constitution Committee suggested (such as prioritisation of monies) based on a one year budget. The Committee stated that it therefore intends to assess the various components of the budget throughout its work as a whole, rather than restrict it to specific Draft Budget scrutiny (for example, scrutiny of the Financial Memoranda for the forthcoming legislation on social security and child poverty).

I hope that the Committee’s response is helpful to the Group’s work going forward.

Yours sincerely,

SANDRA WHITE MSP
CONVENER
SOLACE Scotland is the Scottish Branch of the Society of Local Authority Chief Executives and Senior Managers (UK), and is the representative body for senior managers working within local government. The Society’s members are drawn from a variety of backgrounds, and while engaging with all major players in Scottish governance at both local and national level, SOLACE Scotland has a unique role to play in offering a corporate view of local government.

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

The CIPFA Scottish Directors of Finance Section represents the senior finance practitioners in all 32 Councils.

As such our response is principally based on the experience of senior professionals from a local government viewpoint.

**Theme 1: How effective is the existing budget process?**

*Principles Based Approach*

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

Our response is based on the principles listed by the Group

- *Provide opportunities for the Parliament to comment on expenditure priorities and to influence the Executive’s preparation of Budgets*

The Government’s Budget isn’t public until published. Parliamentary privilege may be cited, with negotiations taking place “behind the scenes”. Increased opportunity would require sharing of information with all MSPs in advance of publication or a longer consultation period. In local government parties out with the Administration sometimes prepare their own budgets (with support from officers).

In the last couple of years debate has emerged about the interpretation of the budget, and the same sets of data have been presented, and interpreted, in different
ways. Transparency required a shared understanding of what the budget means and a consistent form of presentation.

- **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**

Not proactively pursued under current arrangements. This is at odds with community empowerment legislation. The timing and transparency of the budget information, which is often not easy to understand, does not facilitate achievement of this.

- **Provide sufficient time for the Parliament to consider and debate proposals fully**

Based on the draft report the number of days available for debate varies between 21 and 62 days. The information **does not** link to financial performance and delivery of outcomes, limiting consideration and debate on the proposals.

- **Provide balance between the requirement for parliamentary scrutiny and the needs of the Executive**

Linked to the above point we do not believe that there is sufficient time for parliamentary scrutiny. Without clarity about defined outcomes, the focus of debate tends to be around funding levels per sector i.e. input focussed based on allocations of funding.

- **Provide some degree of certainty so that on-going activities can continue without prolonged uncertainty**

There is no visibility of the medium and long term financial plans of the Scottish Government, creating uncertainty and potentially resulting in sub optimal outcomes. Sectors cannot make detailed long term plans themselves with a reliance of one-year grant allocations.

In addition, finalising of budget allocations only takes place a few weeks before the start of the financial year, which again impacts on financial planning and can result in short term decisions being taken.

- **Provide an effective mechanism to deliver motions to be debated by the Parliament**
This could work if the budget setting process was effective. Many of the concerns expressed above would require to be addressed first, particularly the issue of outcomes focus and longer term planning.

- **Provide a meaningful role for subject committees and the Finance Committee**

  The opportunities for the subject committees to influence the budget setting process are unclear. A more joined up approach could be progressed across portfolios with a clear picture of inter-dependencies.

  To be effective, engagement would have to be at a much earlier stage in the budget process and look at clear outcomes and how to achieve these. Again this needs to be based on longer term plans.

  A meaningful role cannot be achieved if the subject committee is only scrutinising budget proposals after the event.

- **Deliver timeous decisions on tax varying power and the Budget (as well as the interim spending approval and budget amendments)**

  There is wide recognition that the budget setting process of the Scottish Government has become more complex as a result of the tax varying powers. All organisations find a way to manage uncertainty. The Scottish Government has the power to borrow for fluctuating revenues to smooth the impact of a variation between anticipated and actual income.

  The Government therefore needs to recognise that risk will always exist around budget forecasting, but it should not use this as a reason and/or justification for one-year budgeting.

- **Engage all MSPs**

  This point really relates to earlier comments that need a longer term approach and opportunity for dialogue before, rather than after, the publication of spending plans.

- **Facilitates the Executive's formulation of proposals**

  Engagement with subject committees with a role in setting objectives and outcomes could support the formulation of proposals. Then formulation of policies should reflect the Programme for Government with a clear line of sight to the Budget. Often new policies are added with no review of existing policies or a clear picture of how the new policies are funded. Additional spending, without a review of existing
policies, will lead to spending pressures. In addition ring-fencing of resources and a focus on inputs, can be detrimental to the delivery of outcomes. Policy should drive the budget rather than the other way around, which traditionally appears to be the case.

- **Provides for the right of amendment**
  This right is via stages 1-3 of the budget process.

A number of the remaining questions re Theme 1 have been addressed through feedback on the principles as noted above.

**Full Year Approach**

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

Yes. A full cycle of financial performance and delivery of outcomes should be established. However to be fully effective the Budget should look at the term of government and adopt a multi-year approach. This would give the opportunity for subject committees to consider and influence the development of performance standards and outcomes, and help to influence spending decisions.

The challenge is a need to accept risk in financial forecasts, and to be prepared to move away from single year budgets. In doing so there is an opportunity to be more inclusive in assessing and determining priorities. The significant opportunity is to determine budget allocations based on outcomes and levels of performance, not on input measures (which the current process largely is).

This would allow the impact of ring-fencing of specific budgets to be considered alongside the net impact on other service budgets.

**Public Engagement**

3. How effective is current public engagement in the budget process and how can this be improved?

Current public engagement is reactive, not proactive. Clarity of information is important, and current information is not user friendly or easy to understand. Again it can be improved by more dialogue at an early stage and agreement over how information is to be presented, to ensure consistency.

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?
Choice at local level of national targets, rather than imposition of “one size fits all” would aid meaningful public engagement. There is evidence of practice in New Zealand – information on outcomes and cost and clarity of what was delivered. MSPs are democratically elected to represent their community; as such greater engagement at an earlier stage could help deliver this.

Whilst governments will argue that they are elected on the basis of their manifesto, there are clearly funding choices and service priorities over which the public has very little say at present.

5. What should be the purpose of public engagement on the Scottish Budget?

It should provide challenge around the delivery of the programme for Government and how this is financed, and how it can be prioritised.

Stage 2 (Draft Budget Scrutiny Phase)

6. What should be the core objectives of parliamentary scrutiny of the draft budget?

Core objectives should be around whether it delivers the Programme for Government; is it SMART; is it fully funded on a recurring basis; what are the implications for existing services?

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

Current scrutiny is reactive and tends to focus on the margins of the overall Budget. It could be improved through earlier announcements, a multi-year approach; and the establishment of performance outcome measures.

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?

There appears to be a significant reliance on the announcement of the UK budget before delivering the Scottish Budget, yet figures are available (even in draft form) covering several financial years. The Scottish Government needs to develop proposals earlier and make provisional announcements to give public bodies sufficient time to prepare and respond.

The current timetable does not sufficiently allow sensible and timeous consideration of options. A lack of funding certainty until a few weeks before the start of a financial
year is not conducive to good financial planning and management of scarce resources.

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

There is no detail about the assumptions and risk factors that the Scottish Government has made in preparing its budget. This is particularly critical if the Government continues to only announce a one year budget.

Knowledge of assumptions and risks are essential planning tools to enable public bodies to make assumptions about future years’ funding in the absence of any certainty over funding from the Scottish Government.

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

From a Parliamentary scrutiny perspective it is currently geared to allow retrospective scrutiny of Budget and Funding proposals. The short timescale does not allow time for detailed scrutiny or debate, and is undertaken too late in the year.

This creates significant uncertainty and does not allow sufficient time for public bodies to make service provisions for the new financial year. The process is therefore geared for Parliamentary scrutiny, with little consideration given to the short timescale this leave public bodies to adjust, particularly as these bodies are the delivery mechanisms for Government policy.

Again, the main change needs to be multi-year budgets and even indicative grant announcements beyond one year.

11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

The major issue arises where significant late changes are made to the Budget Bill, and the impact this has on public bodies required to deliver services. As public bodies it is the lateness of notifications that can lead to short term decision making, rather than the source of the amendments per se.

So timing of the Budget Bill process is the issue.
12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

This is really a political decision and depends on the response to previous comments. Public bodies need greater certainty and longer term financial plans to deliver services effectively.

**Theme 2: What is the impact of the Fiscal Framework?**

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

In responding to the above two questions we would make the following comments:

There needs to be greater awareness and understanding of the operation of the fiscal framework. We would advocate the need for clarity over the bodies and organisations involved, and their roles and responsibilities.

We would recognise the main difficulties that the Scottish Government faces:

- For each estimated tax, the impact on the block grant will need to be assessed
- Likely lag in tax receipt information will make financial forecasting difficult in year
- Annual volatility in tax receipts
- Lack of historical data
There needs to be consideration of the respective roles of the Scottish Government and public bodies. Whilst the above points are challenging, this makes the importance of adopting a longer horizon to financial planning. The Scottish Government has the powers to smooth budgets to public bodies and to manage risk at a Scotland-wide level.

These powers principally relate to borrowing to smooth the impact of tax receipts. However we would question whether a £600m limit is sufficient to manage fluctuations.

There is insufficient data around how the Fiscal framework operates in practice, and the ongoing impact of the Barnett formula on the Scottish Block Grant. There needs to be transparency and challenge over the level of block grant and the assumptions on tax revenues. Of particular importance is the question of economic growth, and how this factors into the formula for block grant, especially where growth and tax receipts will vary across the UK and the wider UK economy.

What needs clarification is how the performance of the Scottish economy versus the UK economic impacts on block grant funding and the wider Scottish Budget. There is also a need to ensure that Scottish Government economic assumptions are consistent with UK Government assumptions, or where this is not the case, then there is clarity as to the reasons why.

Agreement and testing of assumptions, including business rates will be essential. We would advocate the need for “independent scrutiny” of financial assumptions, such as the Office of Budget Responsibility (OBR) at a UK level. However the main point we would make is around clarity and understanding of the assumptions, as we see this as being key to longer term financial planning.

Whilst recognising risk, analysis of the range of uncertainty, and scale would certainly assist long term projections at an individual public body level. However we would see risk as being managed at a Scottish Government level, and multi-year indicative funding allocations as essential to long term financial planning for public bodies.

As highlighted previously, an annual Budget Announcement in November/December does not provide sufficient time for scrutiny and challenge if viewed solely on a one-year basis. There needs to be a cycle of long term financial planning where assumptions can be considered and subsequently reviewed. The current process of single years in not adequate with information available too late, and rushed.

The impact of the current model effectively de-risks the position from the perspective of the Scottish Government as announcements are delayed until the UK Budget is
announced, and then only a one-year position is currently adopted. However for public bodies, as delivery partners with the Scottish Government, this is not adequate nor can it guarantee an effective use of resources.

Theme 3: How effective is the current approach to Multi-Year Budgeting?

The recent frequency of political events, such as elections/referenda at a UK, Scotland and local government level, appear to have shortened the financial planning horizon of the Scottish Budget process and multi-year budgeting seems to have been de-emphasised.

So the current approach of one-year budgeting does not provide sufficient certainty to enable the future planning of services, or to enable longer term financial decisions and investment to be taken.

15. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

We would advocate that the Scottish Government adopts the same practice as the UK Government of a 5 year plan for the life of the Parliament to support effective decision making, including capital investment and preventative investment. Ideally a broader 10 year plan – current Parliament plus 1, reviewed on a rolling three year basis, would further assist with this process.

The Scottish Government needs to acknowledge that financial models can change, and be prepared to change its assumptions and political priorities as time progresses.

A preventative approach needs a longer term service, and therefore a longer term financial and strategic approach given the timescales for outcomes to be realised.

16. What level of information should the Scottish Government publish?

Information should be published well in advance in order to challenge assumptions and outcomes, and it should provide a clear link to the Scottish Government’s manifesto. At present, whilst expenditure commitments are visible it is not clear how these are to be funded. There needs to be a much greater clarity to enable a cross public sector view to be taken, and better alignment of plans e.g. local authority and NHS.
The identification of funding should also include planning for, and notification of, disinvestment of existing funding streams to allow for the financing of new policies or achieving transformation.

17. What should be the role of the parliament’s committees in scrutinising Spending Reviews?

This should be an ongoing role as Parliamentary Committees have a unique opportunity to challenge Government policy and funding allocations. However, to be effective, the opportunities have to be available on a multi-year basis with sufficient time allocated. Effective scrutiny cannot happen over a short period of time after the Scottish Government’s budget proposals are announced.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

18. Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?

Yes. As stated above the current manifesto and Programme for Government set out expenditure proposals, but without funding allocations or (in particular) details of how these proposals are to be funded.

19. If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?

In answering this question we have included some current observations:-

Current Position

- Some policy aims are clear in the medium term (for the duration of the Parliament) e.g. 1140 hours for Early Years, £500m above inflation on Health, no increase in income tax. However funding sources for new initiatives are not clearly identified in the manifesto/Programme for Government.
- Identification of funding sources for new initiatives is essential because of the impact on existing funding streams, and the potential of funding reductions in these areas.
- UK Government has provided “high level” figures to 2012/22 so Scottish Government could do likewise
- Recent years have seen one year settlements with an increase in prescription/ring fencing. This is creating significant challenges in forward planning existing services
• Councils/Health Boards have developed short term measures to cope with the current position, including use of reserves, which mask the problems partly caused by the lack of Scottish Government medium term financial planning.

Questions/Challenges
• Does the expertise/capacity exist to develop fiscal modelling
• There appears to be a lack of Scottish data for some of the key figures
• Unprecedented uncertainty caused by Brexit and the potential for a second Scottish Independence referendum
• There may be a risk that the current flexibilities in the financial management framework may be insufficient to manage volatilities relating to the block grant and taxation income elements of the budget
• New “unknowns” being transferred from Westminster e.g. social security, all adds to the risk profile
• Robustness of core sectoral demand data both in quantum but also unit rates
• Adversarial politics mitigates against medium term plans being consulted upon
• Unlikely to be any appetite for highlighting any funding gap before an Independence Referendum

Conclusion
• There is no technical reason why the Scottish Government cannot publish medium term financial plans. The Accounts Commission are consistent in expecting local authorities, who also have little direct control over the majority of their funding, to undertake medium and long term financial planning in addressing the uncertainties they face
• New powers allow smoothing of under/over budgeting but there needs to be a culture change to understand that a “balanced budget” period doesn’t have to be a single financial year
• Any medium term plan needs reviewed annually and should include optimistic/average/pessimistic scenarios around:-
  o Economic forecasts
  o UK resources devolved
  o Income raising proposals
  o Split over core sectors and revenue/capital
  o Performance over the period not just years in isolation

Theme 5: How effective is the current approach to outcomes-based scrutiny?

20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?
• Protection for some services is often input based rather than outcome focussed e.g. maintaining police and teacher numbers

• Input targets (whether in £ or in resource count e.g. headcount) are easy to measure but do not necessarily support an outcomes based focus nor ensure best value from public funds. A better link between funding/resources and outcomes is desirable

• The link between budget line(s) or other budget documents and the key outcomes is not always clear

• Definition of outcome is not always clear and therefore how it is to be assessed e.g. education attainment

• Excessive ring fencing of funding is not helpful since it reduces the flexibility that is available to address/support outcomes achievement for a locality between different client/service user groups or locality needs

• The relative accountability and responsibility split between the Scottish Government and local government is a challenge:-
  o The extent to which local government is a vehicle for delivering Scottish Government policy, compared to being democratically accountable in its own right to its own electorate, is a consideration
  o Within the Scottish Government itself there may potentially be some differences between national and local priorities, and differing interpretations of national priorities between departments
  o Ultimately the funding is all public (taxpayer) money and accountability for its stewardship, use, and achievement of outcomes should be ensured. A “golden thread” from national to local priorities and outcomes is required
  o Good governance is a key requirement for ensuring that taxpayer funds achieve the best outcomes for citizens. This will presumably apply at Scottish Government, Scottish Parliament, organisational and sub-unit (e.g. school) level.

21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

• Clear outcomes based on evidence linked to funding
  o A key challenge should be ‘what evidence exists to show that this intervention provides the outcomes sought?’
  o A pragmatic approach to implementing this would be to apply it to new policies on a prospective basis
  o More transparency over the cost and funding allowed for new policy initiatives and legislation in the Scottish Budget would be beneficial, especially since these can (if not fully funded) act as effective ring fencing of existing funding
This would also assist in scrutinising the cost/benefits of new policies and legislation implementation.

- Need to recognise the time lag between funding and delivery of outcomes – ties in with medium/long term financial planning
  - For example, capital investment over some years may be required before services even commence and outcomes can have a significant further time lag after that
  - For example, funding finalisation in February for possible implementation from 1 April is challenging, especially since this is unlikely to provide sufficient time for proper scrutiny and challenge of subsequent budget proposals or changes by locally elected members who are responsible for representing their electorate
  - For example, implementation of education changes may be dependent on the start of the school year, not the financial year
  - On this basis, a ‘one-year’ budget approach is not supportive of long-term outcomes or transformation

- An outcomes based approach to public services requires a combined long-term service and financial strategy. The strategies should recognise and allow for the implications of, and any restrictions to, taking on fixed costs or long-term commitments
  - For example, expanding services which involve staff recruitment can be difficult if funding is not certain (e.g. only temporary or fixed term posts are advertised, and evidence suggests that these don’t attract as many potential applicants). The alternative of offering permanent posts can leave organisations exposed to higher exit or disinvestment costs when/if funding for the initiative ceases or general funding is reduced
  - This implies that “exit plans” or a “whole life costing” approach might be suggested for new policies in future. As indicated earlier (Question 1) a clear horizon for post implementation scrutiny to assess the success of any initiative may also be beneficial

- Balance required between national and local priorities
- Political consensus is critical
- National Performance Framework could be used more
  - Best Value Audit process should support across all public sector
  - Audit Scotland role in performance and outcomes evaluation
    - The reports on roads maintenance was a good example comparing spend against performance of different councils and highlighting apparent variations
  - Much stronger linkage between funding and outcomes is desirable
- Scottish Government – incremental budgeting
  - Tends to focus on marginal increases/decreases rather than expose the majority of existing/base funding to scrutiny to ensure that the whole funding package is supporting outcomes and Best Value
o Can the Scottish Government link the (whole) budget to the policy framework?

• Electoral cycle can be a barrier to longer term planning (see Question 3)
• Transparency over cash and real funding changes is required
  o The financial frameworks for central government (RDEL, CDEL, AME etc) and for local government (statutory adjustments) may require consideration in parliamentary scrutiny to assess the impact of budget decisions
  o Consistent and unbiased presentation of funding support for organisations, for example year on year comparisons, is desirable to avoid confusion. Comparison to current year’s final budget may be preferable to comparison against the current year’s initial draft budget proposals

• Accountability
  o NHS and Other Central Government bodies:-
    ▪ It should be recognised that the financial control framework should support longer term financial planning and flexibility for all organisations, including central government bodies
    ▪ Central Government, perhaps by its nature, tends to have a high centrally controlled accountability framework
    ▪ Generally central government bodies have limited ability to hold reserves, which could provide flexibility to support forward financial planning (e.g. to absorb unexpected cost pressures or upfront investment in longer term transformation programmes)
    ▪ Therefore, particularly for the NHS, a more flexible framework, for example more ability to hold reserves and/or carry forward balances, could support longer term financial management

**Performance and Reporting**

22. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF?

This has been covered largely in previous answers, but the main issue to provide clear outcomes and justifications for the funding allocated against specific expenditure heads.

The Scottish Government should also provide evidence that supports the links between investment and outcomes. The budget document should also indicate timescales over which improvement, deliverables, and outcomes are expected to be achieved, and how these will be measured.
On the back of this clarity, then the Budget should cover more than one financial year.

23. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?

There is a balance to be struck between volume and quality of data, but if the information suggested in the answer to Question 22 is established in the Budget Document, then it is this list of outcomes that public bodies should be monitored against.

24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

Parliament should have a really important role in scrutinising performance. However proper scrutiny can only take place if building blocks are established. The key elements are:-

- Multi-year budget
- Proposals published well in advance
- Clear list of evidenced outcomes and how these link to funding allocations
- Clarity of assumptions used to develop the budget proposals

Public Audit

25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

Again the work of Audit Scotland can be used more effectively if the above building blocks are in place. Audit Scotland’s unique position in overviewing the public sector can help to ensure the sharing of good practice. A key element of this is the Best Value audit work.

Audit Scotland publishes a lot of performance data, but the reader is left to analyse the data themselves. Audit Scotland could be more challenging in assessing how performance data is used to achieve better outcomes by analysing reasons for poor performance.

If the Scottish Budget provides clarity of expected outcomes, then Audit Scotland is well placed to review how outcomes are being delivered. The role of the Accounts Commission for local government is also an important element of a move towards an outcomes based and best value approach to the delivery of services.
Written Response from Transform Scotland

How effective is current public engagement in the Budget process and how can this be improved?
The existing Scottish Budget review process does not provide adequate time to provide effective and meaningful scrutiny by members of the public or by external public interest organisations such as ourselves. The decision to delay publication of the Draft Budget from September until December, which has occurred in the previous two years, has left insufficient time for Committees to obtain appropriate evidence from external stakeholders. This has seriously damaged the quality of the scrutiny of the Scottish Budget.

How effective is the existing Budget Bill process and what, if any, changes are required?
There is a serious lack of transparency in the Budget process. Specifically for transport, there is often a lack of clarity over the breakdown of spending for different sections of the transport Budget. As a specific example, expenditure on active travel (walking & cycling) is still not specified as a line in the Budget, despite repeated requests by subject committees that this be the case, instead only being listed as a footnote in the transport section. The terminology used in the Budget documents is often inconsistent between different Budgets, making scrutiny of the Budgets needlessly complicated.

What should be the core objectives of parliamentary scrutiny of the draft Budget?
To determine whether the expenditures proposed meet the policy objectives set out in the Scottish Government’s National Performance Framework, and to propose change where there is a misalignment between the two.

How effective is the existing parliamentary scrutiny of the draft Budget and how can it be improved?
While elements of the process are effective, we regard the overall process as being largely ineffective.

Our experience is that the scrutiny provided by the subject committee with responsibility for transport has then been routinely ignored by the Finance Committee in the latter’s own report. While the scrutiny provided by the subject committee has often been of high quality, this process seems to us entirely pointless if the specific recommendations which the subject committee makes to the Finance Committee is then systematically ignored by the latter.
The Finance Committee should be tasked with responding, point by point, to all specific recommendations made to it by subject committees. In the absence of this, the scrutiny process in the Scottish Parliament appears to us to be entirely broken.

**How does the new UK Autumn Budget process affect the timing of the Draft Budget?**

We acknowledge that this process has influenced the Scottish Government’s decision to publish its own budget at a later date. However, this does not affect our views above regarding the impact on the Scottish Budget process, expressed above, regarding the quality of the scrutiny then afforded by the Scottish Parliament process.

**In what ways can the level of transparency of the draft Budget and other Budget documents be improved?**

**Clarity on transport spending**

With reference to transport, the breakdown of spending for each subsection of the transport Budget needs to be much clearer. At present, it is not entirely clear where money will be spent, which modes of transport will benefit, or which projects will be financed. For example, despite its growing importance in Scotland’s transport system, active travel (walking and cycling) still does not have its own subsection for spending, instead being split between different subsections. This makes it hard to assess how much money is actually spent on walking and cycling and how this money is being spent. Furthermore, it is not explicit what certain subsections, such as the Future Transport Fund, is used to finance, and whether or not active travel is financed through this fund. There needs to be far greater clarity over the exact breakdown of spending of transport for each mode.

**Scrutiny of transport infrastructure spending**

The Infrastructure Investment Plan, which represents a major element of Government expenditure, has faced little or no Parliamentary scrutiny and has been subject to no public evidence-taking by the Government or the Parliament. This is of particular importance when considering the vast sums of money being spent through the Infrastructure Investment Plan. It is paramount that the Infrastructure Investment Plan receives greater scrutiny by the Parliament.

**Climate change impact of Budget spending priorities**

The Carbon Assessment of the Budget is essentially useless as it provides no analysis of ‘second round’ emissions. As such, there is no full climate impact of Scottish Government spending.
For example, according to the 2017-18 Budget, public expenditure on railways is judged
to be emissions-generating when one of the principal reasons why investment is made
in public transport is because of its widely-acknowledged in getting people to switch
from road journeys, and, as a result, lead to reduced emissions.

This can be further illustrated by the situation where rail investment is judged to be
responsible for more carbon emissions than all the proposed spending on trunk roads. This
is due to a disregard for the subsequent emissions arising from the construction of
road infrastructure (i.e. all future vehicle on these roads). Rail is clearly a far more
environmentally sustainable means of transport than private vehicle use, yet the flawed
methodology used to calculate the carbon impact of would suggest that the opposite is
ture. Indeed, even the essentially zero-emission walking and cycling are reported to be
responsible for over 10,000 tonnes of CO2 annually, when, should these be replaced by
other, more polluting modes of transport, would result in much higher emissions.

The Carbon Assessment must be revised to include second round emissions and make
the Scottish Government take full responsibility for the environmental impact of the
Budget.

**Equalities assessment in the Budget**

We regard the Equalities Assessment as essentially useless as we do the Carbon
Assessment of the Budget.

The report lists expenditures that, in the opinion of the Government, may contribute to
equalities outcomes, but presents no analysis of whether the balance of expenditures
contribute positively or negatively to equalities outcomes, nor specifies change from one
year to the next.

The Rural Economy and Connectivity section concludes: "This assessment of the 2017-
18 Rural Economy and Connectivity Budget has highlighted its positive impacts on
equality and shown the limited equality impacts of reduced spend. The Budget reflects
and protects ongoing commitments to the rural and island economy, broadband and
transport." This is despite presenting no analysis that demonstrates this.

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About Transform Scotland
Transform Scotland is the national sustainable transport alliance, campaigning for a transport system which is environmentally sustainable, economically responsible and socially inclusive. We have around 60 member organisations from across the private, public and third sectors. We are politically independent, evidence-based and strictly not-for-profit, with an elected Board of Directors drawn from business, local government and charities.
Written Response from West Lothian Council

A. PURPOSE OF REPORT

The purpose of the report is to seek approval from the Council Executive for a submission from the council in response to the Finance and Constitution Committee consultation on the Scottish Parliament’s budget process.

B. RECOMMENDATION

It is recommended that Council Executive:

1. Notes the content of the Budget Process Review Group – Interim Report, as set out in section D2 of the report;
2. Notes the content of the proposed consultation response from West Lothian Council, as set out in appendix 1 of the report;
3. Agrees the content of the consultation response and agrees that a response is provided to the Finance and Constitution Committee on behalf of the council by the Head of Finance and Property Services.

C. SUMMARY OF IMPLICATIONS

I Council Values
Being honest, open and accountable, making best use of our resources.

II Policy and Legal
None.
(including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)

III Implications for Scheme of Delegations to Officers
None.

IV Impact on performance and performance Indicators
None.

V Relevance to Single Outcome Agreement
None.

VI Resources - (Financial, Staffing and Property)
None.

VII Consideration at PDSP
The Finance and Constitution Committee issued the Budget Process Review Group Consultation on 10 March 2017. The Partnership and Resources PDSP was held on 17 March 2017, meaning there was insufficient time for reporting and consideration at PDSP prior to Council Executive.

VIII Other consultations
None.
D. TERMS OF REPORT

D.1 Introduction

The Finance and Constitution Committee has established a review group to examine the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016.

The Budget Process Review Group has been tasked with developing a revised budget process which incorporates an increased level of responsibility arising from the devolution of new powers. The review group have published an interim report which is subject to public consultation to help inform the review.

The Finance and Constitution Committee issued the Budget Process Review Group Consultation on 10 March 2017, with a deadline for responses to be made by 28 April 2017. The Partnership and Resources PDSP was held on 17 March 2017, meaning there was insufficient time for a review to be completed and reported to PDSP ahead of Council Executive on 25 April 2017.

D.2 Overview

The Budget Process Review Group – Interim Report is structured into five key themes for consideration. An overview of each theme is set out below.

Theme 1: How effective is the existing budget process?

The review group have agreed to adopt a principles based approach. The review group have reviewed the timing of the budget cycle and considered public engagement in the process. The review has been based on the existing three stages of the budget process:

1. Stage 1 – Budget Strategy Phase – originally identified as the stage for Parliament to discuss strategic priorities.
2. Stage 2 – Draft Budget Scrutiny Phase – A written agreement between the Scottish Government and the Finance Committee requires publication of the draft budget by 20 September. If the Scottish Government will not meet this deadline, it is required to consult with the committee on a revised timetable. The Finance Issues Advisory Group (FIAG) recommendation is that this stage is an opportunity for alternative spending proposals to be debated, however this power has not been widely used. Timing is also reliant on UK Government budget announcements.
3. Stage 3 – Budget Bill Phase – The written agreement states that the Scottish Government will introduce a Budget Bill by 20 January each year or the first day thereafter on which Parliament sits.

Theme 2: What is the impact of the Fiscal Framework?

The Fiscal Framework Agreement sets out the rules and arrangements required for the new tax and welfare powers devolved to the Scottish Parliament. Key elements include:

• How the Scottish block grant will be adjusted to reflect the transfer of fiscal responsibilities.
• Forecasting arrangements and responsibilities.
• Arrangements for revenue borrowing and cash management to smooth revenue volatility and differences between revenue forecast and outturn.
• Capital borrowing.
• Other issues, including administration costs, data sharing arrangements and dispute resolution.

The Finance and Constitution Committee has emphasised the importance of full transparency in securing public confidence in the operation of the Fiscal Framework and the Scottish block grant.

**Theme 3: How effective is the current approach to multi-year budgeting?**

The review group noted the Scottish Government’s ability to deliver multi-year budget settlements is linked to the UK Government budget cycle. At present, the UK Government has published budget plans to 2020/21, which could allow the Scottish Government to prepare a multi-year budget for the same period. The group also noted the Fraser of Allander Institute view that a “single year budget is difficult to reconcile with medium term plans and priorities for government” and suggests that “it will be essential to return to multイヤr budgeting as early as possible”. The timing of the presentation of multi-year budgets would need to be considered to allow for effective scrutiny.

**Theme 4: How effective is the current approach to medium-term financial planning?**

The Finance and Constitution Committee recommended that the review group should explore options for a more strategic approach to financial planning. This would provide a wider understanding of the economic and fiscal conditions and provides an opportunity for scrutiny of the overall approach to the management of public finances.

**Theme 5: How effective is the current approach to outcomes-based scrutiny?**

The Finance and Constitution Committee noted that it will continue to develop a more outcome-based approach to financial scrutiny focussing on prioritisation and value for money. This would also involve the scrutiny of public bodies to identify the extent to which they are adopting priority-based budgeting and whether spending allocations were achieving outcomes.

**E. CONCLUSION**

The Scottish Parliament Finance and Constitution Committee have invited responses on the Scottish Parliament’s budget process. The Council Executive is asked to agree the proposed response in order that the council can meet the deadline for responses of 28 April 2017.

**F. BACKGROUND REFERENCES**

Budget Process Review Group – Interim Report
Appendices/Attachments:
Appendix 1 – Consultation Response

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Email: ailsa.mackerrow@westlothian.gov.uk, Tel No: 01506 281306

Donald Forrest
Head of Finance and Property Services
25 April 2017
### APPENDIX 1 – CONSULTATION RESPONSE

**Theme 1: How effective is the existing budget process?**

<table>
<thead>
<tr>
<th>Consultation Question</th>
<th>Consultation Response</th>
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<tbody>
<tr>
<td><strong>Principles Based Approach</strong></td>
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<tr>
<td>1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?</td>
<td>The principle of timely and relevant fiscal information being published, with a focus on medium and longer term policies and objectives.</td>
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<tr>
<td><strong>Full Year Approach</strong></td>
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<tr>
<td>2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?</td>
<td>Currently local government follow a full year approach to budget scrutiny and this is approved and promoted by Audit Scotland. An ongoing increase in budget scrutiny results in better transparency and increases confidence in the budget process.</td>
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<tr>
<td><strong>Public Engagement</strong></td>
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<tr>
<td>3. How effective is current public engagement in the budget process and how can this be improved?</td>
<td>Currently the public engagement in the budget process can be considered as minimal, and engagement with other public bodies viewed as being a tick-box exercise rather than an open engagement process. To improve engagement a more focussed and publicised consultation would be beneficial, providing transparent and easy to understand information. This should include seeking the views of public bodies as part of the budget process to better understand the demands on public bodies but also to listen to suggestions for improvements that will achieve better outcomes.</td>
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4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

Examples of good practice can be drawn from Local Government engagement with the public on future planning and budgets. For example West Lothian Council’s Delivering Better Outcomes consultations in 2012 and 2014 successfully involved asking the public for their views on what should be the priority areas of the council and then providing feedback on proposals to change the way services were delivered to enable savings to be achieved. The consultation process successfully focused on involving traditionally hard to reach groups.

5. What should be the purpose of public engagement on the Scottish Budget?

The purpose of the public engagement should be to establish the values that the public consider the most important and to identify any gaps in meeting demand. The engagement builds relationships with the public and public bodies and should be used to provide insight into what the public expect the budget to achieve.

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<thead>
<tr>
<th>Consultation Question</th>
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<tr>
<td><strong>Stage 2 (Draft Budget Scrutiny Phase)</strong></td>
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<tr>
<td>6. What should be the core objectives of parliamentary scrutiny of the draft budget?</td>
<td>The core objectives of parliamentary scrutiny should be to ensure that the Scottish Budget has been appropriately prepared, utilising independent information to prepare forecasts and that the budget has been prepared in the best interests of the Scottish public.</td>
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<tr>
<td>7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?</td>
<td>Currently the scrutiny process has been effective in its current role, however with the increased powers being devolved to the Scottish Government the role of parliamentary scrutiny will need to be enhanced. This role should include more effective engagement with local authorities and should consider the impact of the budget on medium and longer term planning.</td>
</tr>
<tr>
<td>8. How does the new UK Autumn budget process affect the timing of the Draft Budget?</td>
<td>The timing of the new UK Autumn Budget would suggest that the Scottish Budget would be delayed to incorporate the outcome of the UK announcements, however the UK Government have published their spending plans to 2020/21 meaning that the Scottish Government could</td>
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9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

The process of alternative spending recommendations should be further explored, reducing the requirement for closed-door negotiations, this would also provide further scrutiny of the budget as the alternative recommendations would be required to be considered and the outcome of the consideration documented. More user friendly documentation which shows clear links to priorities and outcomes would be useful to allow users to identify where spending is being allocated and why.

### Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

The timing of the Budget Bill process can cause issues for local government, as significant changes are being made in January or February, leaving councils with minimal time to revise their proposed budgets.

11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

This is a matter of Parliamentary procedure which the council would not wish to comment on directly. The council would support measures that enable constructive engagement by the Parliament in the Budget process.

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

This is a matter of Parliamentary procedure which the council would not wish to comment on directly. The council would support measures that enable constructive engagement by the Parliament in the Budget process.

### Theme 2: What is the impact of the Fiscal Framework?

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<th>Consultation Question</th>
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<td><strong>Consultation Question</strong></td>
<td><strong>Consultation Response</strong></td>
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</table>
13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:
   - The adjustments to the block grant;
   - The reconciliation process, including interim outturn information;
   - Borrowing powers;
   - The Scotland Reserve.

It would be useful and more transparent to provide detailed information on the elements of the Fiscal Framework. The information should be provided as part of the budget cycle, for example a forecast, as part of the budget and then reconciled/monitored. This should include detail on the block grant adjustment and how the adjustment has been linked for revenue forecasts.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:
   - The adjustments to the block grant;
   - The reconciliation process, including interim outturn information;
   - Borrowing powers;
   - The Scotland Reserve.

For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focussing on the operation of the Fiscal Framework?

There is merit in a separate scrutiny process for the operation of the Fiscal Framework due to the complexity of the tax and revenues forecasts. The results of the separate scrutiny should feed into the budget scrutiny process for information to inform the process of its findings.

**Theme 3: How effective is the current approach to multi-year budgeting?**

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<tr>
<th>Consultation Question</th>
<th>Consultation Response</th>
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<tbody>
<tr>
<td>15. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?</td>
<td>The core objectives should be to ensure that spending is focussed on achieving priorities and outcomes, while providing public bodies with planned settlement information to allow better medium term financial planning. The review of spending should focus on areas which do not contribute to priorities ensuring value for money. Scottish Spending Reviews should be carried out at the start of each parliamentary term and used to form the basis of the financial strategy for that parliamentary term.</td>
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</table>
16. What level of information should the Scottish Government publish?  

It would be useful for public bodies to have departmental spending limit information (level 3) provided for a multi-year budget. Due to economic uncertainty, volatility and the demands placed on local government to produce multi-year budgets, it would be useful to have multi-year departmental expenditure budget information published by the Scottish Government. By providing this information local government would be able to better plan ahead and would be able to implement strategies that have the potential to have a more positive impact on outcomes, rather than receiving one year settlement information which does not assist local government with longer term planning.

17. What should be the role of the parliament’s committees in scrutinising Spending Reviews?  

The role of the parliament’s committees in scrutinising Spending Reviews should be to ensure that the review has focussed on ensuring the budget is allocated in accordance with the priorities of the Government. Scrutinising the review to make sure it has followed the agreed priorities and has focussed on value for money. The parliament’s committees should consider the area of interest of the committee but also the impact of the budget on wider public bodies and interests.

Theme 4: How effective is the current approach to medium-term financial planning?  

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<thead>
<tr>
<th>Consultation Question</th>
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<tr>
<td>18. Should the Scottish Government publish a medium term financial strategy for parliamentary scrutiny and wider public scrutiny?</td>
<td>Yes. Audit Scotland has confirmed that it is best practice for Local Government to prepare a medium term financial strategy and that this should be publicly available and scrutinised by elected members. It would seem reasonable for the Scottish Government to also produce a medium term financial strategy. A medium term financial strategy would benefit public sector bodies as it would allow them to better forecast the grant settlement they will receive allow them the opportunity to better develop their medium term financial strategies with an element of certainty regarding settlement figures.</td>
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<tr>
<td>Consultation Question</td>
<td>Consultation Response</td>
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<tr>
<td>19. If so, what should it include, what should be the role of the SFC (Scottish Fiscal Commission) in its preparation and how frequently should it be updated?</td>
<td>The SFC should have a key role in producing forecasts for the Scottish economy and forecast tax receipts. This will play a fundamental role in the development of the Scottish Government's financial strategy and will also provide assistance to public sector bodies when considering their financial strategies when considering how the Scottish economy will perform.</td>
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</table>

**Theme 5: How effective is the current approach to outcomes-based scrutiny?**

<table>
<thead>
<tr>
<th>Consultation Question</th>
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</tr>
</thead>
<tbody>
<tr>
<td>20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?</td>
<td>Currently the Scottish Budget does not provide a clear link to prioritisation and no information is provided on how prioritisation is considered in preparation of the budget. The emphasis on prioritisation and value for money has been adopted by many public bodies; however it is not clear how the Scottish Budget focuses on this approach.</td>
</tr>
<tr>
<td>21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?</td>
<td>Public bodies have a detailed understanding of how what they deliver impacts on priorities and outcomes, therefore public bodies are well placed to support an outcomes based approach to financial scrutiny. For example, many councils have been following a priority based budgeting process for many years and are able to demonstrate how the activities undertaken contribute to priorities and how financial resources are allocated to these activities.</td>
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**Performance and Reporting**

<table>
<thead>
<tr>
<th>Consultation Question</th>
<th>Consultation Response</th>
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<tr>
<td>22. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF?</td>
<td>The Scottish Government budget documents should provide information on how spending decisions link and achieve targets for the NPF, to demonstrate how budget allocations link to the 55 national indicators.</td>
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<td>23. What level of performance information should Scotland's public bodies publish against the National Performance Framework?</td>
<td>The National Performance Framework should link with the Single Outcome Agreement allowing public bodies to identify and align with relevant targets, meaning that public bodies would be able to</td>
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<td><strong>24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?</strong></td>
<td>Where key partnership arrangements are in place parliament should have a role in scrutinising how effective the arrangements are and how effective the Scottish Government have been in building and maintaining the relationships.</td>
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<tr>
<td><strong>Public Audit</strong></td>
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<td><strong>25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes-based approach to financial scrutiny within the Parliament?</strong></td>
<td>Audit Scotland currently prepare reports for local government which make recommendations of improvements on financial planning and scrutiny. This could be adopted by the Scottish Parliament, with Audit Scotland providing an overview of the outcomes based approaches being undertaken by Scottish public bodies.</td>
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