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EXECUTIVE SUMMARY

The Budget Process Review Group (the Group) has been established by the Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution to carry out a fundamental review of budgetary scrutiny. The main driver for the review is the need to accommodate the Scottish Parliament’s new financial powers as well as the operation of the Fiscal Framework within the budget process. The Group, which includes Scottish Government and Scottish Parliament officials, have been tasked with recommending a new process which addresses the increased level of responsibility within the context of the principles underpinning the existing system.

Key Themes

The Group is keen to ensure there is an opportunity for wider engagement in the process and we have therefore published this interim report for consultation. We have identified five key themes for further consideration as follows –

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

The Group would welcome responses to any, or all, of these key questions. More detailed questions are also included following each section of the report and again respondents are welcome to respond to any or all of these.

Principles-based Approach

The Group has agreed to adopt a principles-based approach to our work and we recognise the continued relevance of the existing principles but note that the current budget process was designed for a mainly expenditure budget. The new process will need to accommodate a budget which simultaneously raises and allocates revenue. On this basis the Group has sought to learn from international principles for budgetary scrutiny including those developed by the Organisation for Economic Cooperation and Development and the International Monetary Fund.

Full Year Approach

The Group has also been asked to consider the options for broadening budget scrutiny beyond the period between a draft budget being published and the Budget Bill being passed. While recognising that financial scrutiny is more wide-ranging than just the budget process there is potential to explore how scrutiny earlier in the year can inform consideration of the draft budget once it is published.
A further challenge for the Group will be the potential impact of the timing of the UK Budget which the Chancellor has announced will now be published in the Autumn. This has potentially significant implications for the timing of the publication of the Scottish Government’s draft budget.

Public Engagement

One of the key principles of the existing process is to enable public participation in setting priorities for expenditure. The Group is interested in hearing views on the effectiveness of current public engagement in the process and how this can be improved. In particular, the extent to which there can be meaningful public participation in budget scrutiny.

Fiscal Framework

The Group has also been asked to consider the impact of the operation of the Fiscal Framework on the budget process. The Framework sets out a series of rules and arrangements which are required to operationalise the Scottish Parliament’s new tax and welfare powers. The Finance and Constitution Committee has asked the Group to consider a number of areas in relation to the operation of the Framework including the adjustments to the block grant, the reconciliation process and the Scotland Reserve.

The Group recognises that the Finance and Constitution Committee have recommended there is complete transparency in how the Framework operates. We are interested in hearing views on what information should be provided to ensure full transparency.

Multi-Year Budgeting

A further significant element of the budget process is multi-year budgeting. The Group is interested in hearing views on what should be the core objectives of Scottish Government Spending Reviews, how often they should be carried out and when. At the same time the Group notes the Scottish Government’s ability to deliver a multi-year budget is fundamentally linked to the UK budget cycle.

Strategic Approach to Financial Planning

The Group has also been asked to explore the options for a more strategic approach to financial planning including the role of the Scottish Fiscal Commission. We are interested in hearing views on whether the Scottish Government should publish a medium term financial strategy, what it should include and how frequently it should be updated.

Outcomes-Based Budget Scrutiny

The Group is interested in hearing views on the effectiveness of the current approach to outcomes-based budget scrutiny, including the emphasis on priority budgeting and
value for money. The Group would also welcome views on the role of public bodies in supporting a more outcomes-based approach to financial scrutiny.

A key issue for the Group is to develop effective links between the budget process and the audit function provided by Audit Scotland. We would welcome views on how the work of Audit Scotland can be used effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament.

**Transformational Change**

Overall, the Group has been asked to provide recommendations that will result in transformational change to the budget process. This will require the Scottish Government and the Scottish Parliament to work together and with other bodies such as Audit Scotland and with civic Scotland if we are to deliver the level of change required and deliver a world class financial scrutiny process. This consultation is intended as a starting point for these discussions.

**Consultation**

The deadline for submissions is **Friday 28 April**.

All responses should be sent electronically (in Word format – no confirmatory hard copy required) to finance.constitution@parliament.scot. Written responses will be handled in accordance with the Parliament’s policy for handling written evidence received in response to calls for evidence. All written evidence received may be published by the Parliament and will be treated as a public document. If you wish to submit evidence in confidence or anonymously please read the policy at the link above. A full list of the consultation questions is available at the end of the report and can be downloaded from the Finance and Constitution Committees website at: [Finance and Constitution Committee Website](#)
MEMBERSHIP

- Scottish Parliament Officials
- Scottish Government Officials

External Members of the Group

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

1. The Finance and Constitution Committee and the Scottish Government established a Budget Process Review Group to carry out a fundamental review of the Scottish Parliament’s budget process. The remit of the Group is –

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

2. The Group includes Scottish Government and Scottish Parliament officials and a number of external experts. We have been tasked with devising a revised budget process which addresses the increased level of responsibility arising from the new powers within the context of 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;

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1 The Finance Committee's name was changed to the Finance and Constitution Committee on 29 September 2016 to reflect its extended remit.


3 FIAG was established by the Secretary of State for Scotland in February 1998 with the task of proposing rules, procedures, standing orders and legislation for the handling of financial issues by the Scottish Parliament. Their role is discussed in more detail in the section on Theme 1.
• 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.

3. The Group has met six times and heard from a number of public finance experts including from the Organisation for Economic Cooperation and Development (OECD), the Institute of Fiscal Studies and the Fraser of Allander Institute (FAI). The Group has also held a workshop on an outcomes approach to budget scrutiny which was led by Bill Howat. This included a presentation on New Zealand’s outcome framework.

4. The Group also commissioned external research from Joachim Wehner, Associate Professor in Public Policy, London School of Economic and Political Science. Professor Wehner’s report “surveys existing global norms for budgetary governance and legislative budget scrutiny” and “examines lessons from the experience of legislatures in four countries that exercise different degrees of influence in budgetary decisions: Australia, New Zealand, Sweden and Germany.” The report is published here. The Group would like to thank Professor Wehner for his report which has been very useful in informing our work. The Group has not yet formed any conclusions in relation to the findings and recommendations within the external research.

5. The Group is also keen to ensure there is an opportunity for wider civic engagement in the review and we have, therefore, published this interim report for consultation. The interim report provides a summary of the issues which the Group has considered to date and identifies five key themes for further consideration as follows:

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

6. More detailed questions are also included at the end of each section of the report and a full list is provided at Annex A. Respondents are invited to answer any or all

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4 Clare Hammond, of Rocket Science and a former civil servant in the New Zealand Government, presented to the Group on this subject.
of the questions. The Group will also seek the views of the parliament’s committees and the finance spokespersons from each of the political parties.

7. This interim report does not reflect the agreed findings of the Group but instead represents a range of relevant contributions and views that we will consider alongside the responses to the consultation, in our final report. The Group aims to publish this report with recommendations for a revised budget process before the end of June. This will then be considered in the first instance by the Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution.

8. In conducting a fundamental review of the budget process the Group is considering the need for transformational change. Given the timescales involved and the range and complexity of the issues being considered it is unlikely that all components of a revised budget process will be able to be implemented by the Parliament prior to the draft budget for 2018/19 being published. On this basis it is likely that transitional arrangements will need to be in place for the 2018-19 budget process.

9. It is also likely that while the Group will make firm recommendations for a revised budget process that further work will need to be carried out, for example, in relation to the new social security powers. On this basis it is likely that the Group’s recommendations will require to be phased in and that the process will continue to evolve throughout the current parliamentary session. It will therefore be a number of years from now before we move to a fully revised budget process.

10. It will also be important for the group to consider the impact of any changes to the current Parliamentary scrutiny process on the planning timescales and requirements of not only the Scottish Government and Scottish Parliament, but also on local authorities, tax collection authorities, public bodies and other areas of the public sector who rely on the provision of timely budget information as part of their financial planning processes.
BACKGROUND

11. The Finance Committee recommended in its legacy paper at the end of the last session of the Parliament that—

“Scottish Parliament and Scottish Government officials work together to review the budget process in the first instance with a view to bringing forward proposals for any changes for consideration by our successor and Ministers. This should include addressing the issue of tax changes and the balance between scrutiny of revenue and expenditure.”

12. The new Finance Committee subsequently agreed at its meeting on 7 September 2016 to establish the Group. The Cabinet Secretary for Finance and the Constitution also agreed the proposals. The main driver for the review is the need to accommodate the Scotland Act 2012 and the Scotland Act 2016 powers as well as the operation of the Fiscal Framework within the budget process.

13. The figure below highlights the extent to which the funding system has changed, with half of all Scottish Government expenditure forecast to be funded via tax revenues by 2019/20.

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5 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/97975.aspx#u
14. The new arrangements for the funding of devolution in Scotland give more control over public finances and brings new opportunities and challenges. The Scottish Government and Parliament will have more choice over tax and spending, and more decisions to make about how and when to use new borrowing and financial reserve powers. The existing process was designed for a budget which primarily consisted of allocating a block grant from Westminster. As such, the overall size of the budget was relatively fixed by UK Government Spending Reviews which then allowed the Scottish Government to publish firm spending plans in the annual draft budget.

15. The new arrangements for the funding of devolution in Scotland are much more complex. In particular, as discussed in more detail below, the operation of the Fiscal Framework means there is now a much greater degree of volatility and uncertainty in the budget process. The Group has been asked to bring forward proposals for a revised budget process which addresses this increased level of volatility and uncertainty, within the context of the FIAG principles and the need for robust parliamentary and wider public scrutiny.
16. The Group notes the view of the Finance and Constitution Committee that there is –

“a real challenge in designing a new budget process which meets the need for the publication of reliable and accurate budgetary information while also allowing sufficient time for parliamentary and wider public examination of the Scottish Government’s proposals and an opportunity to make alternative tax and spending proposals.”

17. There will also need to be careful consideration given to any capacity considerations that exist within the key organisations who will need to respond to and deliver the recommendations of this group. That will include not only the capacity the Scottish Government has to support a new scrutiny process, but also the capacity of the Scottish Parliament itself and its Committees to undertake the necessary scrutiny as part of a revised process.

18. The aim of this interim report is to highlight some of the key issues in addressing that challenge for further consideration by public consultation.

[http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#r](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#r)
THEME 1: HOW EFFECTIVE IS THE EXISTING BUDGET PROCESS?

19. The Scottish Parliament’s budget process is based on the recommendations of FIAG which was established by the UK Government in February 1998. FIAG proposed a budget process which, in contrast to Westminster, would be open and accessible and less dominated by the Executive. The House of Commons was seen as having no meaningful input and little opportunity to influence the UK Government’s budget proposals. In contrast the Scottish Parliament would “have more of a say in setting priorities for expenditure.”

20. FIAG proposed a pre-legislative consultative process in which there would be a constructive dialogue between the executive and the legislature prior to spending decisions being finalised. Given this emphasis on pre-legislative influence FIAG recommended the Parliament should not be able to lodge amendments to the Budget Bill –

“But while it is important to provide the opportunities for committees and members to influence spending proposals, the Group believes the right time for the main Parliamentary input is not at the budget approval stage but at an earlier stage in the process, when priorities are being set….FIAG believes there are considerable advantages in this approach. It would provide more opportunity for debate and would leave the final approval of spending proposals as more of a formality. There would be significantly more opportunity for consideration of proposals at an earlier stage in the process than is currently the case.”

21. FIAG proposed an annual three stage process and a summary of how this has worked in practice is set out on below.

Principles Based Approach

22. Professor Wehner succinctly sums up the Group’s core objective as follows –

“The Review Group wishes to establish a set of principles to underpin a world class financial scrutiny process that are informed by (a) statements of best practice on budgetary governance and the role of legislatures in budget scrutiny issued by relevant international bodies; and (b) examples of international good

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7 www.scotland.gov.uk/government/devolution/fiag-01.asp

practice from other jurisdictions. In this context, the report is also to consider whether the principles developed by the Financial Issues Advisory Group which inform the current Scottish budget process may require revision to fully reflect the good practice identified.”

23. The Group agreed to adopt a principles-based approach to our work and recognise the continued relevance of the FIAG principles but note that the current budget process was designed for a primarily expenditure budget.

24. Professor Wehner highlights a number of reports on international good practice. In particular, the International Monetary Fund (IMF) Code of Good Practice on Fiscal Transparency and the OECD’s principles on Best Practices for Budget Transparency. The IMF published a revised code in 2014 which contains a set of principles based around four pillars:

- **Fiscal Reporting** - fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government’s financial position and performance;
- **Fiscal Forecasting and Budgeting** - budgets and their underlying fiscal forecasts should provide a clear statement of the government’s budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances;
- **Fiscal Risk Analysis and Management** - governments should disclose, analyse, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector; and
- **Resource Revenue Management** - (under public consultation at the time of writing).

25. Professor Wehner points out that for “each principle, the Code sets out standards that can be used to assess practices as basic, good or advanced.” The Group recognises a key judgement is the extent to which these international norms for sovereign state governments are applicable to the devolved arrangements in Scotland, where the UK Government retains responsibility for overall fiscal policy. At the same time the Scottish Government now has more opportunities and risks in relation to its management of the Scottish public finances.

26. The Group heard from the OECD at its meeting on 24 October 2016. They are currently developing a set of principles for parliamentary oversight which are

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expected to be consistent with the Best Practices for Budget Transparency. Budget transparency is defined as “the full disclosure of all relevant fiscal information in a timely and systematic manner.”¹¹ The OECD recommends the publication of seven different budget reports at various points during the budgetary cycle:

- A comprehensive budget that includes performance data and medium term projections;
- A pre-budget report that states long-term economic and fiscal policy objectives, and economic assumptions and fiscal policy intentions for the medium term;
- Monthly reports that show progress in implementation and explain differences between actual and forecast amounts;
- A mid-year report that provides a comprehensive update on implementation, including an updated forecast of the budget outcome for the medium term;
- A year-end report audited by the supreme audit institution and released within six months of the end of the fiscal year;
- A pre-election report that illuminates the general state of government finances immediately before an election; and
- A long-term report that assesses the long-term sustainability of current government policies.

Consultation Question

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

Full Year Approach

27. The Finance and Constitution Committee has invited the Group to consider the options for broadening budget scrutiny beyond solely the period between a draft budget being published and the Budget Bill being passed.¹² There are currently a number of other points in the financial year where the Scottish Parliament undertakes financial scrutiny of the Scottish Government, including in areas such as its accounts, provisional/final outturn data and in-year revisions to the annual budget


¹² http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#r
28. However there is potential to go further with this approach and the OECD also considers “there is merit in moving the thrust of parliamentary scrutiny from an annual set-piece event towards a more systematic, sustained parliamentary engagement throughout the course of the budget cycle.”

29. The Fraser of Allander Institute (FAI) also support budget scrutiny throughout the year –

“New mechanisms to support scrutiny throughout the year will be required. For example, it would seem sensible for evidence sessions on key multi-year budget issues such as public sector pay, capital investment, or the long-term sustainability of the public finances….to take place earlier in the calendar. The outputs could then inform the budget process later on in the year.”

30. This is also an approach which is supported by Audit Scotland who provided the Group with an illustrative example of an all year round budget cycle as set out in Figure 2 overleaf.


14 https://fraserofallander.org/2017/01/18/6-reforms-for-the-scottish-budget-process/
### Figure 2 – Budget Cycle

<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 during, 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></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>

- **Medium Term Financial Strategy**
  - Pre-budget statement
  - Draft budget
  - In-year reporting & review
  - Audit certification

- **Fiscal policies & principles (devolved tax, borrowing, reserves)**
  - Multi-year spending review
  - Citizen’s budget
  - Budget revisions
  - Outturn statements
  - Audit reporting on individual accounts

- **Fiscal rules**
  - Equality budget statement
  - Performance reporting
  - Audit reporting on performance & VFM

- **Scenario planning**
  - Budget Bill/ Act
  - Annual reports & accounts
  - Tax resolutions

31. The specification for the external research which was commissioned included a requirement that the case studies should take a full year approach to budget considerations. Professor Wehner states that in Germany –

“During budget formulation, Budget Committee rapporteurs are kept informed by the relevant officials in line departments and sectoral officials in the budget division of the finance ministry. During the first half of the year, it is not unusual for rapporteurs to conduct site visits, for instance to investigate the necessity of certain demands for capital expenditure, or to check on the standard of administration.”
Public Engagement

32. One of the FIAG principles as noted above was to 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.” 15 In seeking to develop a budget process less dominated by the Executive, FIAG sought to “enable the people of Scotland and their elected representatives to have more of a say in setting priorities for expenditure.” 16 The process was intended to “promote more public involvement and much more scrutiny by Parliament of the Executive’s spending proposals than is presently the practice under the Westminster system.” 17

33. The Scottish Government’s Programme for Government for 2016/17 set out its priority for ‘Putting people in charge and creating opportunities’. This set out plans for developing community empowerment and community led innovation, including arrangements for enabling people to have a say in how council budgets are spent.

34. This builds on the Community Empowerment (Scotland) Act 2015, which implemented provisions aimed at strengthening the voice of communities in decisions about public services. The Act gave Ministers the power to require Scottish public bodies to promote and facilitate the participation of members of the public in their decisions and activities, including in the allocation of resources. This recognises that involving people and communities in making decisions helps build community capacity and also helps the public sector identify local needs and priorities and target budgets more effectively.

35. In Session 4, the Finance Committee continued its practice of holding an external meeting each year to gauge the impact of the budget on local areas. Meetings were held in Largs, Hawick, Arbroath, Arran and Pitlochry during the session. On each occasion, the Committee held workshops with representatives of local private, public

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16 Ibid

17 Ibid
and third sector organisations before putting questions to the Cabinet Secretary during a formal committee meeting on the issues raised by participants.

36. As part of its scrutiny of Draft Budget 2017/18 the Finance and Constitution Committee agreed to trial a public engagement initiative inviting members of the public to submit questions for the Cabinet Secretary via social media. Twenty-four questions meeting the agreed criteria were submitted and the majority of these were from members of the public. The Committee then asked a selection of them to the Cabinet Secretary during a formal committee meeting in public. The Government provided written responses to those questions not asked on the day. The session was promoted via the Parliament’s social media channels and broadcast live on Facebook with over 3,400 views being recorded.

37. Given the nature of the Scottish Budget which focusses largely on high level decisions about revenue raising and resource allocation, a key question is what the overall purpose of public engagement should be.

Consultation Questions

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

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

• What should be the purpose of public engagement in the budget process?

Parliamentary Scrutiny

38. The research by Professor Wehner highlighted that global standards for budget transparency produced by the IMF, OECD and others display a significant degree of consensus about the essential ingredients of a transparent budget system, and the types of reports that should be published. This includes providing sufficient time for parliamentary scrutiny, parliamentary oversight of execution of the approved budget, and effective parliamentary audit procedures. There is also increased recognition amongst standard setters that parliamentary involvement should be continuous, covering all stages of the budget process, including medium-term budgeting and priority setting.
39. While global standards are helpful in shaping some aspects of the budget process, they do not prescribe what the overall approach to parliamentary financial scrutiny should be; in particular the extent Parliament is able to influence the budget. Such choices need to be taken based on the Scottish context and a vision about what is right for Scotland. An important part of this is whether FIAG’s call - for a parliamentary process that entails “much more scrutiny” than at Westminster and the possibility to influence the budget - remains a key driver.

40. The Group recognises the existing budget stages may need to be revisited as part of the implementation of a revised process.

**Stage 1 (Budget Strategy Phase)**

41. Stage 1 of the budget process has been almost continually revised since the budget process was introduced. FIAG initially intended that it should be a “discussion on strategic priorities for the following financial year”\(^\text{18}\) and would be based on consideration of an annual report published by the Executive.\(^\text{19}\) The Finance Committee in Session 3 explained –

> “Stage One was originally conceived by FIAG to give the Parliament an opportunity to discuss strategic priorities for the following financial year. This would involve both subject committees and the Finance Committee, and FIAG envisaged that all committees would consult stakeholders and civic Scotland on the priorities as set out in documents produced for Stage One of the process. Committees were expected to make recommendations which could influence government thinking and, consequently, influence expenditure plans set out in the Draft Budget.”\(^\text{20}\)

42. The Executive initially published an Annual Expenditure Report (AER) which set out provisional expenditure plans for the next financial year. However, at the beginning of the second session of the parliament in December 2003, the Finance Committee recommended that Stage 1 should include an assessment of government performance.\(^\text{21}\)

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\(^{19}\) [www.scotland.gov.uk/government/devolution/flag-01.asp](http://www.scotland.gov.uk/government/devolution/flag-01.asp)

\(^{20}\) [http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#8](http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm#8)

\(^{21}\) [http://archive.scottish.parliament.uk/business/committees/historic/finance/reports-03/fir03-04-vol01-02.htm#2](http://archive.scottish.parliament.uk/business/committees/historic/finance/reports-03/fir03-04-vol01-02.htm#2)
43. The Finance Committee also recommended that the AER should be revised to include an assessment of progress against spending priorities which should be specific and measurable. The document was subsequently renamed the Annual Evaluation Report and included a new statement of strategy and priorities and an assessment of performance against portfolio targets.22

44. In June 2005 it was agreed that Stage 1 would only take place in Spending Review years as budgetary changes are limited in other years. The effectiveness of Stage 1 was considered again by the Finance Committee as part of its review of the budget process at the beginning of the third session. The Committee noted that due to the previous UK Spending Review taking place in the same year as the 2007 Scottish elections, Stage 1 had not been carried out since 2004.23 The Committee recommended the introduction of a “budget strategy phase” (BSP) to replace Stage 1 which should be carried out at least once in each session of the parliament. The objective of the BSP is to allow the parliament to scrutinise the progress which the Scottish Government is making in delivering its own targets through its spending priorities.24

45. The first BSP was carried out alongside the scrutiny of Draft Budget 2014/15. The Scottish Government provided a document containing snapshot information from the National Performance Framework25 (NPF) as well as updates on progress in relation to outcome budgeting and projections for expenditure. The Finance Committee consulted with the subject committees and invited them to identify specific areas on which they would welcome performance information from the government. The subject committees were subsequently invited to scrutinise this information as part of their annual budget scrutiny.

46. In April 2015, the Finance Committee recommended the Scottish Government publish performance information alongside the draft budget each year and the “BSP is replaced by a more flexible approach to the scrutiny of outcomes”26 – whereby committees feel free to scrutinise performance at any point in the year. At the same

22 http://archive.scottish.parliament.uk/business/committees/finance/reports-04/fir04-05-vol01-02.htm#2

23 http://www.scottish.parliament.uk/parliamentarybusiness/PreviousCommittees/18981.aspx


25 The NPF is discussed in more detail in the section on Theme 5.

26 http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/20150402_Letter_to_Cabinet_Secretary.pdf
time the Finance Committee sought to encourage the subject committees to adopt a more outcomes-based approach to budget scrutiny.

47. The Finance and Constitution Committee has continued this approach and has recommended to the subject committees that examining prioritisation and value for money should be an on-going aspect of their budget scrutiny and wider financial scrutiny. This should include scrutiny of the extent to which public bodies are adopting a priority-based budgeting approach and whether they are spending their allocations well and achieving outcomes.

48. The Group notes that this approach can be undertaken at any point in the budget cycle and does not need to wait on the draft budget being published. This is discussed in more detail in the section on an outcomes-based approach.

Stage 2 (Draft Budget Scrutiny Phase)

49. The Written Agreement between the Scottish Government and the Finance Committee requires publication of the draft budget by 20 September at the latest. In non-Spending Review years the Scottish Government is also committed to publication earlier in September on the basis that the size of the budget is “primarily fixed and known.” The Scottish Government is required to consult with the Finance Committee/Finance and Constitution Committee on a revised timetable if it believes it may not be able to meet the 20 September deadline.

50. Historically, the Scottish Government’s internal process for delivering a Draft Budget each year has varied depending on whether it is a single year budget publication or a multi-year/Spending Review process. However, in recent years, with the additional complexities to the budget process which the Fiscal Framework has introduced, the timeline and complexity of the annual process has increased.

51. It is likely the Scottish Government’s initial work on the Draft Budget will begin at least 6 months before the final publication date for the document. This is to allow sufficient time for the range of commitments, emerging pressures, savings/efficiency options that exist across the different Scottish Government portfolios to be considered and assessed in order to arrive at a balanced set of tax and spending proposals. For the 2017/18 budget, the process also awaited the outcome of the UK Autumn Statement in November 2016 to obtain firm budget aggregates to base the final Scottish budget allocations upon as well as clarity on UK Government tax

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

52. Time is also factored into the preparation process to enable the various internal approvals of the budget to be sought and for the physical publication and distribution of the Draft Budget document. Moreover, in future years the Scottish Fiscal Commission (SFC) will publish forecasts of Scottish Government tax revenues and demand-led expenditure, which will require advance notice of both Scottish Government tax and welfare policy, but also need to draw upon data both on tax revenues and economic indicators as well as forecasts from the Office of Budget Responsibility.

53. Following publication of the document, the Finance and Constitution Committee is the lead committee in scrutinising the draft budget and provides guidance to the subject committees. The subject committees normally have around two months to scrutinise the Scottish Government spending proposals within their respective remits including consulting with stakeholders.

**Alternative Tax and Spending Proposals**

54. One of the key aspects of the FIAG proposals was that the Parliament would have the opportunity to propose alternative spending proposals during the draft budget process. FIAG’s view was that non-Government amendments to the budget should be proposed at this stage when there will be better opportunities to debate fully the Executive’s proposals.

55. While the subject committees focus on expenditure, the Finance and Constitution Committee examines the Scottish Government’s tax and borrowing proposals and the operation of the Fiscal Framework. At the same time they also consider each of the subject committee reports including any alternative spending proposals.

56. The subject committees are able to make alternative spending proposals when they report to the Finance and Constitution Committee. However, these proposals must not increase the overall size of the relevant portfolio. As such, if a committee proposes an increase in spending to a budget line they are required to state how it would be funded.

57. Any proposal to increase taxation identifies how the increased revenue would be spent and any proposal to decrease taxation is balanced by a commensurate reduction in the total spending proposed by the Scottish Government.
58. The Written Agreement states –

“The Finance Committee’s report on the Draft Budget may include an alternative set of tax and spending proposals. Any revised spending proposals may not exceed the total proposed by Scottish Ministers unless there is a proposal for a commensurate increase in the level of Scottish taxes.”

59. The report on the draft budget is normally published at the beginning of December and debated by the Parliament prior to Christmas recess. The Scottish Government is then required to respond to the Committee’s recommendations including any alternative tax and spending proposals during the Stage 1 debate on the Budget Bill. A written response will then be provided prior to the Stage 3 debate.

60. While the draft budget process provides an opportunity for the Parliament’s committees and Members to recommend alternative proposals it is not a power which has been widely used. The Finance Committee in its legacy paper at the end of the second session stated –

“Although the budget process in Scotland is more open and accessible than many others (including Westminster), it is clear that there is a certain lack of engagement in the process and therefore, the ability to influence the budget (by, for example, making alternative spending recommendations) is rarely used.”

61. This is a view shared by Sir John Elvidge, the permanent secretary to the Scottish Government from July 2003 until June 2010. He commented on this issue that –

“In principle, the process of Committee consideration might have provided a process for the emergence of budget proposals which had cross-party support and which could form the basis of a Budget Bill…. Experience during the eight years of coalition government following devolution did not provide much evidence of the process fulfilling that aspiration.”

62. In its review of the budget process during the third session of the Parliament the Finance Committee also heard evidence from previous Members on this issue. Des McNulty MSP, former convener of the Finance Committee, said –

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

29 http://archive.scottish.parliament.uk/business/committees/finance/reports-07/fir07-03.htm

30 https://www.instituteforgovernment.org.uk/publications/northern-exposure
“We need to be realistic about what the Finance Committee and the financial scrutiny process can do. Neither can replace the role of government in leading the choices that are going to be made…The Finance Committee can investigate the consequences of those choices.”

63. This was echoed by Alasdair Morgan MSP, a former deputy convener of the Finance Committee, who said –

“It should not be the Finance Committee’s job to suggest that government policy should change…However, in the budget process, as opposed to debates on other issues, the Finance Committee should examine whether the money achieves the aim that the Government has set out to achieve.”

64. The Group also recognises that while FIAG envisioned the parliamentary committees as having the primary role in proposing alternative spending proposals, any significant changes to the draft budget have tended to result through informal negotiations between the political parties and the Cabinet Secretary. This is discussed in more detail in the section on informal negotiations at the end of this section.

Timing Issues

65. The UK Chancellor announced during his Autumn Statement in November 2016 that the UK budget will now be published annually in the autumn rather than March. This has potentially significant implications for the timing of the publication of the Scottish Government’s draft budget. This is because the size of the draft budget is partly dependent both on the size of the block grant and the level of the adjustments to the block grant as a consequence of how the Fiscal Framework operates. This is discussed in more detail in section 2.

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

32 http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-05.htm
Where previously the budget was relatively fixed it is now much more fluid and dependent on a number of moving parts. This is a consequence of both the devolution of further powers and how the Fiscal Framework operates. The budget is, therefore, now calculated as follows –

**Figure 3 – Scottish Budget Calculation (using income tax as an example)**

1. **OBR Forecast**
   - Sets out the forecast and estimated annual growth for UK income tax revenue.
   - Annual Growth: +2%

2. **UK Government Budget**
   - Sets out the Block Grant for Scotland, BGA based on previous BGA and estimated annual growth in UK income tax revenue.
   - £30bn
   - £12bn

3. **Scottish Government Draft Budget inc. SFC Forecast**
   - SFC produce forecast for the income tax revenue.
   - £12.1bn

4. **Scottish Budget calculation**
   - £30bn
   - £12bn
   - £12.1bn

5. **Reconciliation**
   - Forecasts for both UK and Scottish income taxes are reconciled based on outturn data.
   - £30bn
   - £11.9bn
   - £12.2bn

The key elements which are discussed in more detail below are:

- The budget is now more dependent on the performance of the Scottish economy relative to the performance of the UK economy;
- The Block Grant is adjusted to reflect the transfer of tax powers from the UK Government for each of the devolved taxes;
- The budget is more dependent on forecasting;
- The SFC will have responsibility for forecasting the revenues from the devolved taxes;
• The Office for Budget Responsibility (OBR) will have responsibility for forecasting year on year growth in comparable revenues in the rest of the UK (rUK) which will inform the annual adjustments to the block grant;

• Reconciliation of forecasts with outturn data when it becomes available;

• Increased capital borrowing powers up to £450m annually within an overall limit of £3bn;

• Increased resource borrowing powers up to £600m annually within an overall borrowing limit of £1.75bn; and

• A new cash reserve – the Scotland Reserve – with a limit of £700m.

68. The Cabinet Secretary for Finance and the Constitution’s view is that the “introduction of the new powers will add additional complexity and some uncertainty to the budget process, including potential volatility in the aggregate level of funding available.” He emphasised to the Committee the potential for significant variations in the overall size of the budget arising from the impact of the UK Autumn Statement. In particular, the possibility of rUK policy changes in income tax and taxes that are devolved and the timing of the forecasts for the calculation of the adjustments to the block grant.

69. The Group recognises the way in which the Fiscal Framework works means there is potentially a tension between the timing of the publication of reliable and accurate budgetary information and the length of time available for parliamentary and wider public scrutiny of the Scottish Government’s proposals.

70. Publishing the Scottish draft budget in September would allow ample time for parliamentary scrutiny. But the risk would be that subsequent changes to UK fiscal forecasts or UK Government tax policy might require the Scottish Government to revise its Draft Budget significantly. The risk is that such revisions might undermine the perceived status of the Scottish draft budget.

71. The question about the timing of the Scottish draft budget is thus one of trade-offs. A Scottish draft budget before the UK Budget allows ample time for budget scrutiny but may be subject to revision between draft and final stage as a result of policy or forecast changes at the Autumn Budget. A draft budget published after the UK Autumn Budget will be subject to relatively less uncertainty regarding the scale of block grant adjustments (BGA – these are explained in more detail in section 2), but will curtail the time for budget scrutiny.

72. HM Treasury have not specified when in the autumn the UK budget will be announced but previously the Autumn Statement has tended to be towards the end of November. The Finance and Constitution Committee has suggested that if the UK budget were to be published annually around the same time then it is difficult to see how the current budget process timetable could be maintained. They have written to HM Treasury asking for clarification as to when in the autumn the UK budget is likely to be published.

73. If the UK Budget is published at the end of November each year then it is unlikely the Scottish Government’s draft budget would be published until just before Christmas recess. This is not without precedent as illustrated in Table 1 below.

Table 1 – Scottish Draft Budget Timetable 2000/01 to 2017/18

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>UK Spending Review</th>
<th>SG Draft Published</th>
<th>Budget Committee Report on Draft Budget</th>
<th>Working between (excluding recess dates) days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>9 Nov 1999</td>
<td>15 Dec 1999</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>2002/03</td>
<td>20 Sep 2001</td>
<td>14 Dec 2001</td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>2004/05</td>
<td>11 Sep 2003</td>
<td>10 Dec 2003</td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>2005/06</td>
<td>15 Oct 2004</td>
<td>15 Dec 2004</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>2006/07</td>
<td>1 Sep 2005</td>
<td>14 Dec 2005</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>2007/08</td>
<td>8 Sep 2006</td>
<td>12 Dec 2006</td>
<td></td>
<td>57</td>
</tr>
<tr>
<td>2009/10</td>
<td>16 Sep 2008</td>
<td>10 Dec 2008</td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>2010/11</td>
<td>17 Sep 2009</td>
<td>4 Dec 2009</td>
<td></td>
<td>46</td>
</tr>
<tr>
<td>2012/13</td>
<td>21 Sep 2011</td>
<td>9 Dec 2011</td>
<td></td>
<td>47</td>
</tr>
<tr>
<td>2013/14</td>
<td>20 Sep 2012</td>
<td>10 Dec 2012</td>
<td></td>
<td>47</td>
</tr>
<tr>
<td>2014/15</td>
<td>11 Sep 2013</td>
<td>9 Dec 2013</td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>2015/16</td>
<td>9 Oct 2014</td>
<td>12 Jan 2015</td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>2017/18</td>
<td>15 Dec 2016</td>
<td>27 Jan 2017</td>
<td></td>
<td>21</td>
</tr>
</tbody>
</table>

74. The impact on the timetable for scrutiny of the draft budget can be seen from the comparison between the timetable for Draft Budget 2014/15 and Draft Budget 2017/18 in Table 2 overleaf.
Table 2 – Scottish Draft Budget Timetable, 2014/15 and 2017/18

<table>
<thead>
<tr>
<th></th>
<th>Draft Budget 14/15</th>
<th>Draft Budget 17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft Budget Published</td>
<td>11 Sep 2013</td>
<td>15 Dec 2016</td>
</tr>
<tr>
<td>Subject Committees Report to Finance Committee</td>
<td>15 Nov</td>
<td>13 Jan 2017</td>
</tr>
<tr>
<td>Finance Committee Consideration of Draft Report</td>
<td>27 Nov and 4 December</td>
<td>23 and 25 Jan</td>
</tr>
<tr>
<td>Finance Committee Report Published</td>
<td>9 Dec</td>
<td>27 Jan</td>
</tr>
<tr>
<td>Chamber Debate on Draft Budget Report</td>
<td>19 Dec</td>
<td>Same time as the Stage 1 debate</td>
</tr>
<tr>
<td>Budget Bill Published</td>
<td>16 Jan 2014</td>
<td>26 Jan</td>
</tr>
<tr>
<td>Stage 1</td>
<td>22 Jan</td>
<td>2 Feb</td>
</tr>
<tr>
<td>Stage 2</td>
<td>29 Jan</td>
<td>8 Feb</td>
</tr>
<tr>
<td>Stage 3</td>
<td>5 Feb</td>
<td>23 Feb</td>
</tr>
</tbody>
</table>

75. The comparison is useful in that it provides an example of a timetable that follows the Written Agreement against a timetable that is based on the draft budget being published after the UK Autumn Statement. As Table 1 shows the number of working days available for scrutiny of Draft Budget 2014/15 is 53 while the number of working days available for Draft Budget 2017/18 is 21.

76. The main impact of Draft Budget 2017/18 being published on 15 December 2016, therefore, is on the amount of time the subject committees have to take evidence. Most subject committees could only have one oral evidence session post-publication in the w/b 19 December 2016. The subject committees were then required to agree a report in the w/b 9 January 2017 so as to be able to report to the Finance and Constitution Committee by 13 January 2017. A number of subject committees raised concerns about the time available in their reports to the Finance and Constitution Committee on the 2017/18 Draft Budget.

77. The Social Security Committee’s view is that this “is clearly not a sufficient timescale in the interests of thorough committee scrutiny” while the Rural Economy and Connectivity Committee stated that the timescale is “unrealistic” and severely undermined its ability to “conduct scrutiny of sufficient depth and quality.”


78. The Economy, Jobs and Fair Work Committee noted late publication of the draft budget severely restricted the time available for scrutiny this year. They “expect nothing less than clearly defined arrangements better suited to effective parliamentary scrutiny to be in place in time for the next budget.” At the same time they intend to “pursue more meaningful scrutiny by looking more closely at the spending plans of Scottish Enterprise and Highlands and Islands Enterprise as they become clearer during the year.”

79. However, given the timing of the publication of the draft budget a number of committees carried out pre-budget scrutiny. For example, the Justice Sub-Committee on policing carried out pre-budget scrutiny on police financial planning for 2017/18. The Local Government and Communities Committee focused its pre-budget scrutiny on the housing supply budget and the Health and Sport Committee examined the budget setting processes of the newly established health and social care partnerships.

80. Consideration of alternative approaches to Committee scrutiny will be something the group will be interested in looking at.

81. The Finance and Constitution Committee stated in its report on Draft Budget 2017/18 that it recognises the Group –

“faces a real challenge in designing a new budget process which meets the need for the publication of reliable and accurate budgetary information while also allowing sufficient time for parliamentary and wider public examination of the Scottish Government’s proposals and an opportunity to make alternative tax and spending proposals.”

82. The Committee also noted that –

“while pre-budget scrutiny can be carried out in areas such as the performance of public bodies in delivering outcomes this should not be viewed as an alternative to the scrutiny of the draft budget.”

37 Ibid
38 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx
39 Ibid
Transparency and Accountability

83. Given the increased complexity of the source of funding for the Scottish Government’s budget the Group recognises the need for a renewed emphasis on transparency and accountability. For example, the Finance and Constitution Committee has emphasised that “it is essential that there is complete transparency in how the Fiscal Framework operates.”

The Committee also has also recommended that “consideration needs to be given to improving the transparency of the budget document as highlighted by the FAI.”

The FAI recognises the Scottish Government has “made substantial improvements in the level and quality of budgetary and financial information that is provided and is publicly accessible” but “there remains significant scope to improve the availability and transparency of publicly available budget data.” The FAI’s view is that the draft budget document is “confusing and overly complex.”

84. The Scottish Government has made clear that the current format of the Draft Budget document has evolved over time to reflect the changing context in which the budget is presented and also to respond to particular requests from the Scottish Parliament for additional information to be included. Examples where this has happened include:

- The inclusion of a new chapter to provide information on the devolved taxes;
- The addition of budget figures from the most recent Budget Act position (the Autumn Budget Revision in 2017/18) at the request of the Finance Committee;
- The provision of time series data in Annex G of the document; and
- The evolution of the Scotland Performs information produced alongside the Draft Budget to include score cards, a summary covering paper giving examples of outcomes driven budgeting and additional examples based with the scorecards (again at the request of the Finance Committee).

85. The Auditor General for Scotland (AGS) has also emphasised in written evidence to the Finance and Constitution Committee that “comprehensive, transparent, reliable and timely reporting of Scotland’s public finances is needed to support parliamentary

40 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#r
41 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#p
42 https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf
43 https://fraserofallander.org/2017/01/18/6-reforms-for-the-scottish-budget-process/
The AGS notes the Scottish Government has commenced a programme of work to review and broaden its financial reporting in the context of the new financial powers and highlights the following issues for consideration:

- “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;
- continued development of the suite of annual accounts that contain detailed outturn information on the different components of the budget, so that 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; and
- consolidated accounts for the whole of the Scottish public sector. These would help provide the Scottish Parliament, taxpayers and others with a fuller picture and understanding about public spending and the longer-term implications for public finances. Areas for further consideration include information about the total levels of pension liabilities and borrowing across the Scottish public sector.”

86. Given the increasingly dynamic nature of the Scottish Budget, with greater volatility and uncertainty, the question also arises about whether there is a need for some form of in-year reporting and, if so, how this might relate to existing budget revision processes.

87. In considering how budget documents should develop the Group considers there is likely to be value in more clearly separating the objective / factual content from that which is policy driven or political in nature. In mixing the two, there is a risk that all such publications are seen as largely political, potentially colouring the nature of the scrutiny that is applied to them. This applies equally to all parts of the budget cycle.

88. Detailed information on spending plans is published alongside the draft budget. But it can be difficult to follow the big picture - the key budget aggregates and how they fit together. In some important areas little detail is provided within the draft budget about how planned spending is being funded beyond the headline numbers, making it challenging to drill into this and understand what is proposed. For example the total Departmental Expenditure Limits (DEL) limits for 2017/18 set out in table 1.01

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(£31,457 million) do not agree with the total proposed DEL spending plans in table 3.01 (£31,493 million) with no explanation or reconciliation of the difference. There are also a number of components of table 1.01 that are not clearly explained. Similarly table 2.07 provides headline information on BGA but there is no detail provided on the calculation of these.

89. More generally, while there is a significant amount of relevant information available in the draft budget itself and supporting documents (such as details of the forecasting process), the way in which all this fits together is very difficult to follow. While in part this is due to the underlying complexity of the process, more can be done to make things clear and to ensure more detail is available to support parliamentary scrutiny. An important part of this will be the consistent presentation of information across different parts of the budget cycle.

Consultation Questions

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

Stage 3 (Budget Bill Phase)

90. The Written Agreement states the Scottish Government will introduce a Budget Bill by 20 January each year or the first day thereafter on which the Parliament sits. A Budget Bill is a specific category of Government Bill that meets the definition set out in section 29(3) of the Public Finance and Accountability (Scotland) Act 2000 – i.e. making provision, for any financial year, for all or any of the following matters:

(a) authorising the use of resources by the Scottish Administration, or by any body or office-holder (other than an office-holder in the Scottish Administration) whose expenditure is payable out of the Fund under any enactment;
(b) authorising payment of sums out of the Fund;

33
(c) for sums which are payable into the Fund to be applied for any purpose instead of being paid into the Fund; and
(d) specifying the maximum amount of relevant expenditure for the purposes of section 94(5) of the Local Government (Scotland) Act 1973 (c.65) and maximum amounts of borrowing by certain statutory bodies.

91. The Bill does not require expenditure to be incurred. It provides a high level authorisation for expenditure up to certain limits, by the Scottish Government, detailed at the level of each Scottish Government Cabinet Secretary portfolio, and by certain other public bodies.

92. These limits are broad and high level. Changes to spending plans may not, therefore, require formal amendments to the Bill. Formal amendments to Budget Bills are comparatively rare, having only ever been lodged at Stage 3 of the Budget Bill in 2008. Stage 2 amendments to the Budget Bill were lodged in 2001 and 2003 and now in 2017.

93. If the Budget Bill is not passed (and granted Royal Assent) before the start of the financial year to which it relates, the previous year’s Budget Act contains emergency measures to allow government expenditure to continue on a contingency basis.

94. The Budget Bill gives authority for the totals to be varied during the financial year – and it is common for subordinate legislation to be brought forward in both the autumn and spring of each financial year to adjust the expenditure authorisations provided for in the original Bill (for example, to reflect changed priorities or to allocate extra spending, such as from Barnett consequentials arising from UK Government budget decisions).

95. The process that the Scottish Government follows to prepare the Budget Bill is normally much more straightforward than the process to prepare the Draft Budget. This is because it is a largely technical exercise to translate the proposals that are already set out in the Draft Budget (plus any changes that have been proposed through the Parliamentary scrutiny of the Draft Budget) into the Bill and its short supporting document. This process normally takes place in December/January each year.

**Scrutiny of the Budget Bill**

96. The Budget Bill as introduced is essentially the means by which the draft budget is given legislative effect following pre-legislative scrutiny by the parliamentary committees. The Scottish Government normally responds to the Finance and Constitution Committee’s report prior to the Budget Bill being introduced.
97. Scrutiny of the Budget Bill is subject to some modifications to the general legislation process:

- Only the Scottish Government can introduce a Budget Bill, and only the Scottish Government can lodge amendments to a Budget Bill (This is according to Rules 9.16.2 and 9.16.6 set out in the Scottish Parliament Standing Orders);
- The timetable for consideration of a Budget Bill is different from that for other Public Bills:
  - Stage 3 shall begin no earlier than 20 days after the Bill is introduced. If Stage 3 is not completed by the end of 30 days after introduction, the Bill falls (Rule 9.16.5).
  - The normal rules on minimum gaps between the Stages of a Bill do not apply to Budget Bills Rule 9.16.4).
- There is no consideration or report at Stage 1 by a lead committee (Rule 9.16.3). Delegated powers provisions in the Bill are, however, still considered by the Delegated Powers and Law Reform Committee (Rule 9.6.2); and
- As with other Bills, if the Parliament disagrees to the motion at Stage 1 or Stage 3, the Bill falls. However, unlike for other rejected Bills, a new Budget Bill can be introduced straight away (Rule 9.16.8).

98. The timetable considerations for the Budget Bill, combined with the need for it to receive Royal Assent before the start of the relevant financial year, usually mean the three Stages take place in three consecutive business weeks.

**Revenue Raising**

99. The Budget Bill authorises expenditure. It does not contain any measures to raise revenue. However, the ability to authorise spending up to a certain level by means of the Budget Bill is now linked more clearly than previously to the various revenue raising powers that the Parliament has.

100. As a result of the Scotland Act 2016, the Parliament now has the power to set all income tax rates and bands for the earned income of Scottish taxpayers. This is done by means of a motion for a Scottish Rate Resolution. The Parliament must agree to a motion to approve the Scottish Rate Resolution. This must be done before the start of the tax year to which it relates. The motion can be lodged only by the Scottish Government and cannot be amended (Section 80C of the Scotland Act 1998 and Rule 8.10).

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

102. The Finance and Constitution Committee does not have a formal role in considering the motion for the Scottish Rate Resolution. The Scottish Government’s assumptions about likely proposed tax levels are, however, covered in the draft budget and so the Committee’s report on the draft budget is likely to include consideration of the terms of the tax-raising proposals.

103. The Group heard evidence from HMRC and Revenue Scotland on the benefit of early notice of tax decisions, consistent with the principles of efficiency and certainty. In the case of income tax, the risk of issuing wrong PAYE codes to taxpayers grows the later decisions are made. While these could be rectified, this might not be before the start of the tax year. Moreover, the later decisions are made, the greater the cost the Scottish Government would need to bear to correct codes.

Amendments

104. Professor Wehner states in his report that to “be a meaningful actor in the budget process, legislators should have the authority to make recommendations” but that the “Westminster tradition suppresses outright parliamentary amendments.” As noted above FIAG considered the question of whether the Parliament should be able to lodge amendments to the Budget Bill. FIAG’s view was that amendments should be proposed at an “earlier stage in the process, when priorities are being set. Professor Wehner’s view is that this “process may reflect a desire to give the Parliament a say, but it also reveals a hesitation to decisively break with Westminster conventions in this regard.”

105. Professor Wehner points out that there are various options for the level of parliamentary authority to lodge amendments. Options could include unlimited powers to lodge amendments to the Budget bill or limiting the powers to shifting expenditure from one item to another or by reducing an expenditure. The group was interested in Prof Wehner’s perspective on this issue, but has reached no defined views on the position of Parliamentary amendments at this stage. The group will continue to explore this issue as part of our work on the final report and recommendations.
Informal Negotiations

106. The Group recognises that at the same time as the formal budget process there are also informal bilateral negotiations between each of the political parties and the Scottish Government. These negotiations are carried out in private although the political parties may make their alternative tax and spend proposals public. Any significant change to the draft budget has tended to result as a consequence of these bilateral negotiations rather than through the parliamentary process. Furthermore, any change has tended to arise through additional money rather than shifting the allocations within the draft budget. Sir John Elvidge provides a useful insight as to how this political process works –

“The annual budget process involved bilateral discussions through political channels in which the other parties, including the Independent MSP, pressed for additions to the budget of various kinds. John Swinney sought to accommodate those pressures to a sufficient degree to obtain the necessary number of votes to pass the Budget Bill. Although he might adjust the Scottish Government’s own proposals at the margins, he generally sought to achieve the accommodation by stretching the envelope.”46

107. These bilateral negotiations become more significant during periods of minority government when the Cabinet Secretary requires the support of at least one other political party to get the Budget Bill passed. This was evident during the process for the 2017/18 Budget. The Cabinet Secretary stated during the debate on the general principles of the Budget Bill –

46 https://www.instituteforgovernment.org.uk/publications/northern-exposure
“I have been listening very carefully to the other parties in this Parliament across the political spectrum on both tax and spend and I have entered into negotiations in good faith in order to build the consensus that this country needs. I particularly welcome the constructive approach that has been taken by the Green Party. It has asked me to consider changes to our income tax proposals and to provide additional funding for local government.”

108. The Cabinet Secretary was asked by the Finance and Constitution Committee about the transparency of the negotiations. He responded –

“On whether there is an issue about transparency, I have to work in the confidential realm, given what parties bring to me and what I can then explore and share. If parties put their requests into the public domain, I can respond fairly while still respecting private discussions.”

109. The Cabinet Secretary also pointed out that while the negotiations are in private the outcome of those negotiations is made public and still requires to be agreed by Parliament. Following the negotiations in relation to the 2017/18 Budget the Cabinet Secretary lodged amendments to the Budget Bill at Stage 2. This is the first time since devolution that Stage 2 amendments have been lodged.

110. The Cabinet Secretary also stated he is “minded to consider how we could do budget negotiations differently. Political parties need space to have negotiations with Government, but if there is another way to do it, I will be interested in exploring it.”


THEME 2: WHAT IS THE IMPACT OF THE FISCAL FRAMEWORK?

111. The Fiscal Framework Agreement\(^{50}\) sets out a series of rules and arrangements that are required to operationalise the new tax and welfare powers that are being devolved to the Scottish Parliament.

112. Key elements of the Fiscal Framework include:

- How the Scottish block grant will be adjusted to reflect the transfer of fiscal responsibilities;
- Forecasting arrangements and responsibilities;
- Arrangements for revenue borrowing and cash management to smooth revenue volatility and differences between revenue forecasts and outturn;
- Capital borrowing; and
- And a range of other issues including administration costs, data sharing arrangements, dispute resolution, and implementation and review.

How it operates: overview

113. The Scottish Government has traditionally relied on a block grant from Westminster to finance virtually all of its expenditure\(^{51}\). This block grant has been determined by the Barnett Formula. Barnett allocates to Scotland a population share of changes in ‘comparable spending’ in England. This change is added to the block grant in the previous year.

114. Following the Scotland Act 2012 and Scotland Act 2016, a number of tax revenues are being devolved and assigned to the Scottish budget. The Scottish block grant for resource spending will continue to be calculated initially by the Barnett Formula. But the block grant will then be adjusted (i.e. reduced) to take account of these new taxes being transferred to the Scottish Government.

115. The mechanism is complex. For each of the devolved (and assigned) taxes, a BGA will be calculated. The BGA is calculated for each tax separately, and consists of two elements – an initial deduction and an indexation mechanism.

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\(^{51}\) Council Tax and Non-Domestic Rates are set and collected in Scotland, but the revenue from these taxes is used to fund Local Government.
116. The initial deduction is simply equal to the tax revenues collected in Scotland in the year immediately prior to the devolution of the tax power. For example, if income tax is devolved in 2017/18, the initial deduction is equal to income tax receipts in Scotland in 2016/17.

117. But what should the BGA be in 2017/18 and any year thereafter? This is where the indexation mechanism comes in. Its purpose is to provide a measure of the rate at which 'comparable revenues' have grown in the rest of the UK between 2016/17 and 2017/18.

118. To calculate the BGA for income tax in 2017/18, the indexation mechanism is applied to the initial deduction. By applying it to the initial deduction, it thus provides a counterfactual estimate of the level of income tax revenue that would have been raised in Scotland in 2017/18, had tax policy been the same in Scotland as in rUK, and had income tax revenues grown at the same rate in Scotland as in rUK between 2016/17 and 2017/18.

119. During the development of the Fiscal Framework, there was some disagreement between the Scottish and UK Governments over the best way to calculate the indexation mechanism. In the end, a compromise was reached. Over the period to 2020/21, the indexation mechanism will be calculated according to the so-called ‘Indexed per capita’ (IPC) method. But the results from a second method, the ‘Comparable Method’ will also be published alongside the IPC estimates.52

120. A similar process will take place to add funding to the Scottish block grant in respect of the new welfare powers, once these are devolved. So, for each of the taxes being devolved or assigned to the Scottish Parliament, a deduction (BGA) is made to the Barnett-determined block grant. On the other side of the equation of course, any revenues raised from the devolved / assigned taxes in Scotland will be added to the Scottish budget.

121. If the sum of the revenues raised from each of the devolved/ assigned taxes is greater than the sum of the BGAs for each tax, then the Scottish budget will be better off than it would have been without tax devolution. This could happen under two circumstances: if the tax base grows relatively more quickly in Scotland than in rUK; or if tax rates in Scotland increase relative to those in rUK. Of course the reverse could happen – Scottish revenues may grow relatively more slowly than those in rUK, in which case the Scottish budget will be worse off than it would have been without tax devolution.

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122. It follows from this discussion that two sets of tax forecasts are important in determining the Scottish budget:

- The forecasts of the revenues likely to be raised from the devolved/assigned taxes in Scotland; and
- The forecasts of the comparable tax revenues in rUK. These forecasts determine the BGAs, i.e. the amounts deducted from the Scottish block grant.

123. In drawing up its draft budget in any given year, the Scottish Government will thus rely on forecasts of the revenues raised from the Scottish taxes (to be made by the SFC), and a forecast of the BGAs for each tax (which will be based on forecasts for the growth in rUK revenues made by the OBR).

124. Subsequently, there will be a series of reconciliations between the forecasts and outturn. Two sets of reconciliations will have to take place – reconciliation of the Scottish forecasts to outturn, and reconciliation of the BGA forecasts to outturn.

125. If the reconciliations for Scottish revenues and BGAs work in the same direction, the total revision to the Scottish budget may be relatively small. For example, if it turns out that the outturn data for Scottish revenues was 5% below forecast, whilst the outturn for the BGA was also 5% below forecast, then lower than forecast Scottish revenues are simply offset by lower than forecast BGA – the size of the Scottish budget is unchanged relative to forecast. If the reconciliations go in opposite directions however (e.g. if Scottish revenues are lower than forecast, whilst the BGA is simultaneously higher than forecast), the effect on the Scottish budget could be substantial.

126. For income tax, outturn data will not be available until around 15 months after the end of the financial year. This means that outturn data for 2017/18 will not be available until July 2019, and reconciliation will not take place until financial year 2020/21. For the fully devolved taxes such as the Land and Buildings Transaction Tax, the BGA is adjusted throughout the year, with final outturn data available three months after the end of the financial year.

127. The devolution of revenue (and welfare spending) responsibility thus clearly exposes the Scottish budget to the risk of greater budget volatility. The Fiscal Framework provides the Scottish Government with borrowing powers to deal with this uncertainty and volatility.

128. However, there is no need for a reconciliation between the revenue forecasts for the fully devolved taxes and outturn figures – this is because the Scottish Government uses the receipts from these revenues throughout the year. In effect therefore, reconciliation happens ‘naturally’ over the course of the year.
129. Under the Fiscal Framework Agreement, the Scottish Budget will have the ability to borrow up to £600m each year within a statutory overall limit for resource borrowing of £1.75 billion. A fairly complex set of rules govern how these powers can be used in these different circumstances:

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

130. The Fiscal Framework also makes provisions for a cash reserve – the Scotland Reserve – which can be used to smooth spending and manage tax revenue volatility to a limited extent. The Scottish Government will be able to pay into reserves up to a total of £700 million and draw these down at a rate of up to £250 million a year for resource spending, and £100 million a year for capital spending.

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

**Timing and level of information provided**

132. The Finance and Constitution Committee has emphasised full transparency is an essential element in securing public confidence in the operation of the BGA. It recommended in its report on Draft Budget 2017/18 that “the Scottish Government explores with HM Treasury how best to provide the respective BGA calculations for the 2017/18 budget and that in future years the BGA calculations are published alongside the draft budget.”\(^{53}\) They have also stated it is vital that a HM Treasury Minister is willing to appear before the Committee to discuss the operation of the

\(^{53}\) [http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#c](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/103269.aspx#c)
Fiscal Framework and have written to the Chief Secretary to the Treasury to this effect.\footnote{http://www.scottish.parliament.uk/S5_Finance/General%20Documents/2017.02.10_Convener_to_CS_T_(2).pdf}

133. There is a question about how soon after outturn data is available reconciliation figures should be published. For example, should the reconciliation totals for income tax be published shortly after outturn data is available, or wait until the following UK Government Autumn Budget, and publish reconciliation figures alongside the latest forecasts for the subsequent year’s BGAs?

134. In budget documentation, consideration could be given to ensure that any reconciliation figure is derived transparently in relation to:

- Which tax does reconciliation relate to?
- Which outturn year does it relate to?
- To what extent does reconciliation relate to outturn Scottish revenues being higher/lower than forecast; to what extent does it relate to the BGAs being reconciled up or down relative to forecast, and to what extent do these two things mitigate or accentuate the overall reconciliation? (It is technically possible that reconciliation of Scottish tax forecasts to outturn is offset by an equivalent reconciliation of BGA forecast to outturn; but equally it is possible that the reconciliation of Scottish revenues and BGAs work against each other to create a larger combined impact on the Scottish budget).

135. Thus far this discussion has been couched in terms of ‘final outturn’ data and reconciliation. But interim outturn data will become available throughout the financial year, and this should permit the Scottish Government to have a reasonable idea about what sort of reconciliations might be ‘coming down the line’ before the final outturn figures are published.

136. The reconciliation process markedly illustrates the complexity of the Fiscal Framework. As the FAI points out “very quickly changes in budget lines will become inherently more complicated on a scale not yet witnessed” and finding “a way to make this accessible to promote scrutiny and accountability will be crucial.”\footnote{https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf}

137. An important question therefore is the extent to which the Scottish or UK Governments should publish the implications of interim outturn data on the forecasts for Scottish revenues or BGAs. In due course, forecasts and reconciliations will also
need to be made in respect of Assigned VAT and spending on the new welfare powers. The timing of the reconciliation process for these fiscal powers will also need to be resolved.

**Process for parliamentary scrutiny**

138. The Finance and Constitution Committee has recommended that the Group considers the scrutiny arrangements for the reconciliation process as part of its work and also brings forward recommendations for amendments to the Written Agreement.

139. Parliament will need to scrutinise the final reconciliation figures once these have been published. One option would be to consider publishing reconciliation figures in September, which would allow scrutiny of those numbers at an early stage of the parliamentary year, and free up parliamentary time for other aspects of budget scrutiny after the draft budget has been published.

140. There is a question of whether the parliament should be involved in scrutiny of interim outturn data on Scottish revenues or UK revenues as they pertain to the BGAs, and, if so, when this scrutiny of interim outturn data should happen.

**Borrowing Powers and the Scotland Reserve**

141. The Written Agreement between the Committee and the Scottish Government states the Scottish Government –

    “will provide details of any planned borrowing under the Scotland Act powers as part of the Draft Budget publication. Details should include the amounts to be borrowed, and a commentary explaining the use of the powers.”

142. The Finance and Constitution Committee notes in its report on Draft Budget 2017/18 that detailed “arrangements for reporting and repaying borrowing and the operation of the Scotland Reserve are being agreed with the UK Government.”

They also noted that once these arrangements have been agreed with the UK Government, scrutiny arrangements will also have to be agreed with the Committee. They recommended the Group considers the scrutiny arrangements for the

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56 [http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/Written_Agreement_-_Revised_April_2015.pdf](http://www.parliament.scot/S4_FinanceCommittee/General%20Documents/Written_Agreement_-_Revised_April_2015.pdf)

operation of the Scotland Reserve as part of its work and makes recommendations for amendments to the Written Agreement.

143. Decisions about the use of these provisions will affect the extent to which they are available in subsequent years and other aspects of the Scottish budget (for example the need to accommodate borrowing repayments). It is important for parliamentary scrutiny that how this is being managed is understood.

144. The Scottish Government has reiterated its commitment to ensure revenue funded methods of investment are kept at a sustainable level and do not overly constrain budget choices in future years in its Infrastructure Investment Plan 2015. To support this it continues to manage revenue funded commitments within a maximum of 5% of its expected total annual DEL budget and has reported information on this for 6 years ahead in draft budget documents for a number of years.

145. This is an example of a specific fiscal policy that goes beyond that prescribed in the Fiscal Framework agreement, setting out specific parameters that the Government has decided to operate within. Where such approaches are adopted in the future it will be important these are clearly articulated in a way that enables effective parliamentary scrutiny.

Consultation Questions

• 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

• 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?
THEME 3: HOW EFFECTIVE IS THE CURRENT APPROACH TO MULTI-YEAR BUDGETING?

146. In 1998 the UK Government introduced a Spending Review process described as a three year plan reviewed every two years. It consisted of a comprehensive review of departmental aims and objectives alongside an analysis of each spending programme. The objective was to fix firm three year plans for the bulk of the budget (Departmental Expenditure Limits) and only annually plan for those parts of the budget which are primarily demand led (Annually Managed Expenditure). This would provide government departments with multi-year budgets and, therefore, improve long-term planning.

147. UK Spending Reviews determine the level of funding to the devolved administrations. There are three factors that determine changes to the block grant during a Spending Review:

- The change in planned spending in UK Government departments;
- The extent to which the relevant UK Government department’s spending is comparable with the services carried out by the devolved administration; and
- Population share.

148. At Spending Reviews the formula is calculated using changes to each UK government department’s overall DEL budget and the departmental comparability percentage. Separate calculations are carried out in relation to resource and capital DEL. At annual fiscal events – Budgets and Autumn Statements – the calculation is undertaken at programme level where policy announcements change the overall DEL allocations for a UK Government department.

149. In practice this means that the block grant is relatively fixed for each year of the Spending Review period but may be subject to some change (Barnett consequentials) as a consequence of UK policy announcements. Barnett consequentials can be addressed by the Scottish Government either through the budget process or through in-year revisions.

150. The Scottish Government’s ability to deliver firm multi-year budget settlements is fundamentally linked to the UK Government budget cycle (as a significant element of the Scottish budget is still derived from the UK Government block grant). At present, the UK Government has published budget plans out until 2020/21, which could allow the Scottish Government to prepare a multi-year budget that extended out until 2020/21.
151. There are however external factors that can impact upon multi-year budget settlements for future years, such as the impact of UK economic/policy decisions, anticipated future year efficiency measures and the timing of UK general elections. These factors can influence the decisions taken by the UK Government on the timing and content of the budgets that they publish for future years – in turn this may constrain the extent to which the Scottish Government can choose to produce multi-year budgets.

Purpose

152. Dr Marc Robinson who is a member of the OECD’s advisory panel on budgeting and public expenditure defines spending reviews “as the process of developing and adopting savings measures, based on the systematic scrutiny of baseline expenditures.”\(^{58}\) They may be either efficiency reviews or strategic reviews. He identifies four stages in the review process:

- Framework stage;
- Parameters stage;
- Savings options stage; and
- Savings decision stage.

153. He describes the UK Comprehensive Spending Review in 2010 as a root and branch review “aimed at achieving large reductions in public expenditure for fiscal consolidation.”\(^{59}\) Within the UK each government department is required to conduct their own internal spending review and present savings options to HM Treasury.

154. In advance of the UK Spending Review in 2010, HM Treasury published a framework document.\(^{60}\) This set out a strategic approach to spending and the scope of the Spending Review. The document states the “forthcoming Spending Review will involve more than allocation of resources” and “will also provide a platform to consider new and radical approaches to public services provision.”\(^{61}\) The Review will “therefore consider how to deliver a step change in public sector productivity and


\(^{59}\) Ibid


value for money.” In relation to capital spending the document states “the Government will undertake a fundamental review of spending plans to identify the areas of spending that will achieve the greatest economic returns.”

155. Dr Robinson suggests that Spending Reviews should “normally be selective rather than comprehensive, with comprehensive reviews undertaken exceptionally when either fiscal circumstances or major changes in government priorities require special in-depth scrutiny of spending.” He also highlights that “in no recent case could the parliament be said to have been a key decision maker in the choice of savings measures to be adopted as a result of the spending review process.”

Consultation Questions

- What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?
- What level of information should the Scottish Government publish?
- What should be the role of the Parliament’s committees in scrutinising Spending Reviews?

Timing

156. UK Spending Reviews were initially published in the summer which allowed the Scottish Government time to follow suit prior to the draft budget being published by the 20 September deadline. However, the last two UK Spending Reviews took place on 20 October 2010 and 25 November 2015. Following the UK Spending Review in 2010 the Scottish Government published a one year budget on 17 November 2010. The Scottish Government subsequently published a three year Spending Review up to 2014/15 in September 2011. There has not yet been a subsequent Spending Review.

64 Ibid
157. Following the UK Spending Review in November 2015 the Scottish Government published a one year budget on 16 December 2015. This was due to the Scottish Parliament elections in May 2016. The Scottish Government also published a one year budget for 2017-18 on 15 December 2016. The Cabinet Secretary explained to the Finance and Constitution Committee that due to the “degree of uncertainty and volatility that exists right now, it would be unwise to publish a three-year spending review.”

158. The FAI’s view is that a “single year budget is difficult to reconcile with medium term plans and priorities for government” and suggests “it will be essential to return to multi-year budgeting as early as possible.” This also allows for greater certainty for public bodies, allowing them to plan more effectively.

159. The Finance and Constitution Committee has highlighted the need to ensure sufficient time is allowed for the scrutiny of multi-year budgets. For example, it is likely the publication of a multi-year budget in December would present further difficulties for the subject committees in carrying out effective scrutiny.

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160. The Finance and Constitution Committee recommended in its report on Draft Budget 2017/18 that the Group should explore the options for a more strategic approach to financial planning. This should include the role of the SFC in supporting such an approach.

161. The AGS stated in written evidence to the Finance and Constitution Committee –

“In my view … a more strategic approach to public financial management will be needed. This will require 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 – 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.”67

162. The FAI also emphasise the need for “an overall strategy outlining the role that fiscal policy will play in achieving the government’s core economic and social objectives”68. This should provide clear links with the draft budget.

163. International transparency standards recognise the important role a budget strategy can play:

- The IMF’s Fiscal Transparency Code highlights that ‘fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects’ and that this should include a Medium-term Budget Framework which includes outturns and projections of revenues, expenditures and financing over the medium term on the same basis as the annual budget. It also highlights that budget projections should be based on comprehensive macroeconomic forecasts which are disclosed and explained;

68 [https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf](https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf)
OECD Best Practices for Budget Transparency recommend a pre-budget report is prepared that states long-term economic and fiscal policy objectives, and economic assumptions and fiscal policy intentions for the medium term. It notes that such a statement “serves to encourage debate on the budget aggregates and how they interact with the economy… [thus serving] to create appropriate expectations for the budget itself.” A Pre-Budget Statement provides Parliament and the public with a way of understanding the link between policies and budget allocations;

Since 2015, the OECD’s Best Practices have been embodied and updated within a further recommendation on Budgetary Governance. This includes a recommendation that budgets “should be closely aligned with the medium-term priorities of government through developing a stronger medium-term dimension in the budgeting process, beyond the traditional annual cycle” and that budgets are managed “within clear, credible and predictable limits for fiscal policy”; and

The International Budget Partnership’s Guide to Transparency in Government Budget Reports highlights that, “Broadly speaking, the Pre-Budget Statement should provide considerable information on the government’s perspective on how fiscal policy will relate to the broader economy and how budget priorities will be shaped in the coming years. However, the statement is not the budget: it should provide a general sense of the government’s budget priorities and policies but without the considerable detail that ultimately will be embedded in the budget itself.”

164. It will however be necessary for the group to consider whether these international norms are wholly applicable in the context of a sub-national Government, such as the Scottish Government.

165. A medium-term financial strategy could provide the Scottish Government with the opportunity to:

- state explicitly its long-term economic and fiscal policy objectives and intentions;
- set out expectations and broad financial plans for a number of years ahead, linking this to anticipated economic performance and the consequences for public finances; and
- assess the long-term sustainability of the public finances.

166. A published strategy that covered these areas could provide the opportunity for Parliament to scrutinise the Scottish Government’s overall approach to managing the public finances. It could also enable a wider understanding of the economic and fiscal conditions that the Government is facing, and the constraints or opportunities for the public finances. By its nature, this would not be a definitive statement of anticipated revenues and spending plans or a replacement for detailed budgets given the underlying uncertainty over the medium to longer term. It would also
require resource to be invested in its preparation and scrutiny, with the anticipated benefits outweighing the costs incurred.

167. The potential components could include an analysis of the economic context, how this was expected to change over the medium to longer term and key economic forecasts for the period. It could also set out what this was expected to mean for the main budget aggregates in each of the years covered. These could include high-level figures for:

- Projected levels of revenues and funding – including block grant, BGAs, Scottish income tax, fully devolved taxes and the anticipated effects of reconciliations to outturns. This would be need to be based on information from the UK Government, forecasts by the OBR and SFC and the Government’s own projections;
- Indicative spending and investment levels – including aggregate spending expectations at portfolio level. These could be analysed transparently between the main budget classifications – RDEL, CDEL, AME etc. – and be able to be reconciled to projected revenues and other sources of funding (including the anticipated use of borrowing and reserves); and
- Anticipated borrowing and reserves – including planned capital borrowing/repayments, the expected impact of any resource borrowing/repayment, and the expected use of the Scottish Reserve.

168. Draft Budget 2017/18 includes some of the elements that might be expected to be included in a medium term financial strategy:

- Chapter 1 of the draft budget document includes narrative about the overall economic and fiscal outlook and a table showing anticipated revenues and funding over the next 3 years. It also describes the main aims of the budget and makes links to specific spending proposals;
- Chapter 2 provides some more detail on tax and the Fiscal Framework, covering specific tax proposals, the forecast implications of these over the next 5 years and some detail about the effect of BGAs; and
- Annex A includes a statement of the parameters within which long-term investment commitments are being managed, together with projections of the relevant measure over the next 6 years.

169. A medium term financial strategy document would allow an opportunity to present more detailed information in relation to each of these elements.
Timing

170. If a strategy is to be prepared, key questions arise as to when and how often it should be published, how this relates to the Parliamentary timetable and how it ties in with other components of the budget cycle (such as multi-year spending reviews and annual draft budgets).

171. OECD Best Practices for Budget Transparency suggest an annual pre-budget report model. This would be published and scrutinised in advance of detailed budget proposals. By contrast the IMF fiscal transparency code does not include any specific guidance on timing.

172. In evidence to the Finance and Constitution Committee, the AGS suggested that a budget strategy should be updated and rolled forward annually and should not be limited by the period of the current Parliamentary session. A number of other suggestions have been heard during the Group’s considerations including:

- Publication of a medium term financial strategy toward the start of each new Parliamentary session, covering the period of the whole session. This would be published and scrutinised a number of months prior to the first annual budget of the new Government (in September, say). This would enable a new Government to be established and for it to determine its overall direction and fiscal policies (and potentially in the case of a coalition to negotiate a partnership agreement). Headline figures could be updated and published subsequently – either at future fiscal events or where there were significant changes in key measures;

- Publication of a strategy annually, covering a pre-determined period (5 years, say). This would roll forward by one year each year, and any changes to forecasts of fiscal policies would be reflected. This would ensure that a medium-term view of the fiscal position is taken irrespective of the stage of the Parliamentary cycle. Where there is a change of Government, any new fiscal policies would be reflected in the next update. This could be published a number of months in advance of the annual budget enabling appropriate parliamentary scrutiny in advance of the detailed annual budget, either prior or after the summer recess (potentially in May or September). This might be published alongside a multi-year spending review in the years when this is published; and

- Publication of a strategy annually alongside the detailed annual budget. Depending on the timing of the detailed budget, opportunity for detailed parliamentary scrutiny of the budget strategy is likely to be limited or delayed (perhaps until the following spring). This would enable the figures in the strategy and detailed budget to be fully aligned, and for each to draw on the most recent UK autumn budget information.
173. Each of these models is predicated on a stable agreement between the Government and Parliament about frequency and timing. An alternative approach is to enable discretion for the Government to decide on timing and/or frequency based on circumstances, agreeing this with Parliament on an ad-hoc basis. While this maximises flexibility, it reduced predictability and clarity over long-term direction. It is recognised that there are also a number of hybrid models available and the extent of Government discretion over timing, frequency and content will be a critical issue to resolve.

Consultation Questions

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

• If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?
174. The Scottish Government is committed to an outcomes-based approach to its policies. Improving outcomes involves taking action that will, over time, result in positive changes to people's lives; for example people living longer, healthier lives in safer communities with better employment opportunities.

175. The Scottish Government introduced the NPF in 2007. This sets out its purpose, strategic objectives, the sixteen national outcomes it wants to achieve, and fifty-five national indicators that track progress towards these outcomes. The Scotland Performs website provides information on progress against the measures in the NPF.

176. The Community Empowerment (Scotland) Act 2015 reinforces the Scottish Government's focus on outcomes. It requires Scottish ministers to consult on, develop and publish a set of national outcomes at least every five years, and regularly and publicly report progress towards them. The Act places a duty on public bodies to consider these national outcomes in carrying out their functions. The Scottish Government is currently in the process of reviewing the NPF.

177. One of the key ways in which the Scottish Government can influence the achievement of its outcomes is by the way it allocates money and other resources through its budget.

178. The FAI’s view is that the draft budget “should not be seen simply as a set of spending allocations, but as the end point in a process of strategic planning” which should include, where possible, a “much greater emphasis on outcomes budgeting.” The AGS suggests that enhanced financial reporting could include “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.”

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69 https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf
70 http://www.scottish.parliament.uk/S5_Finance/Complete_PUBLIC_Finance_Ctte_Papers.pdf
Prioritisation and Value for Money

179. In its report on the Draft Budget for 2017/18, the Finance and Constitution Committee noted that it will continue to develop a more outcome-based approach to financial scrutiny. This involves focusing on prioritisation and value for money, including whether the Scottish Government’s spending decisions reflect the priorities it has set out in, for example, the Programme for Government.

180. It also involves scrutinising the extent to which public bodies are adopting priority-based budgeting and whether they are spending their allocations well and achieving outcomes. Priority-based budgeting is an approach that focuses on the delivery of priority outcomes and allocates money to those services or areas that make the greatest contribution to delivering those outcomes.

181. The Finance and Constitution Committee has recommended in guidance to subject committees that they focus on prioritisation including:

- The extent to which public bodies have moved towards a priority-based budgeting approach;
- Whether spending priorities support outcomes;
- Whether current performance informs the choices about where to allocate resource; and
- The extent to which the NPF influences the budget-setting process of public bodies.

182. They also recommended the subject committees focus on value for money including:

- The extent to which public bodies are spending their allocations well and achieving outcomes;
- The extent to which an open and rigorous performance culture has been embedded within the public services;
- The extent to which the public services are using performance data to ensure value for money;
- The progress of public bodies in moving towards a more outcomes-based approach to public service management; and
- The contribution which public bodies are making towards the NPF.

71 http://www.parliament.scot/S5_Finance/Reports/FCCS052017R01.pdf

183. A number of subject committees have begun to carry out scrutiny of public bodies within their respective remits. For example, in advance of the publication of Draft Budget 2017/18, the Education and Skills Committee wrote to four public bodies within its remit asking them to set out:

- How they measure their impact in terms of the NPF;
- How the quality of their work is evaluated;
- How their strategies and financial plans link to outcomes;
- How they take forward work which reflect the Christie Commission’s four principles of reform;
- How they are able to manage change; and
- How their work supports the Scottish Government’s climate change targets.

184. The Education and Skills Committee welcomed the focus on outcomes in the strategies and planning documents provided.

Consultation Questions

- How effective is the emphasis on prioritisation and value for money in delivering a more outcomes-based approach and how could it be improved?
- What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

Performance Reporting/Linking Spend To Outcomes

185. An important element of an outcome-based approach to budgeting, is performance reporting that clearly sets out what spending is aiming to achieve and how this contributes to the Scottish Government's overall purpose and specific outputs and outcomes. The FAI has noted that –

"Budget planning and allocations should not just be forward-looking, but should consider questions such as how well has money been spent previously, and what has it achieved." 73

73 [https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf](https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf)
186. To assist scrutiny of the draft budget, the Scottish Government provides a Scotland Performs update. For the 2017/18 budget, it provided an overview of performance against relevant indicators in the NPF grouped by budget portfolio.

187. The content of performance reporting and the extent to which annual reports provide information on each bodies’ contribution to overall outcomes varies significantly by body, reflecting the nature of the policy objectives, accountability arrangements and performance framework that each is working within. Public bodies can contribute to a range of outcomes set out in the NPF, with this contribution sitting beside that of many other organisations. This can make it very challenging to establish / attribute the contribution each has made through its own activity.

188. The Finance Committee in the last session of the Parliament continually raised concerns about the lack of any linkage between spending and outcomes. For example, in its report on Draft Budget 2013/14 it stated that –

“A recurring issue for this Committee and previous Finance Committees has been the lack of any linkage between spending and outcomes in either the draft budget or the NPF.”74

189. In its report on Draft Budget 2014/15 the Finance Committee’s Budget Adviser noted that there was “no link between the Government’s spending plans…and the intended impact spending will have on future performance.”75

190. In its report on Draft Budget 2016/17 the Finance Committee noted that the Education and Culture Committee struggled to examine the outcomes delivered by five key public bodies within its remit –

“None of the bodies were able to provide the Education and Culture Committee with any direct link between budgetary decisions and outcomes and most of the evidence received related to inputs and outputs.”76

191. The Committee asked the Scottish Government what action it is taking to ensure that Scotland’s public bodies are spending their allocations well and achieving outcomes. In particular, in what ways does the Scottish Government examine the contribution which public bodies are making towards the national outcomes within the NPF.

74 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/57685.aspx
75 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/70884.aspx
76 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/96135.aspx
192. The Scottish Government responded that it –

“makes clear its expectation that all public bodies should align their spending plans with the National Performance Framework. The Scotland Performs update provides a useful resource for improving the scrutiny of spending in relation to outcomes. The contribution of individual public bodies to the NPF is examined by their Boards and by the Scottish Government through the sponsorship arrangements in place.”

193. Since 2008, New Zealand has used its budget process to focus more on the outcomes it is achieving from current and new public sector spending. It has brought together its budget and performance processes to enable a continuous focus on outcomes. The system is based around constantly asking “What outcomes does this achieve?” based on four year plans with three main components, as set out below in table 5.

**Figure 4 – The New Zealand approach**

- **Strategy**
  - Setting out the strategic objectives and outcomes for the department. This includes understanding what their strategic aims are, how they fit in with the broader Government agenda, and how they meet the needs of their customers.

- **Outputs**
  - Outlining the proposed interventions to meet the department’s objectives. This includes understanding the impact and value for money of current and new activity proposed such as their outputs, services, funding and regulation.

- **Resources**
  - Planning and allocating funding, assets and staff skills in order to deliver their proposed outputs.

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[77] http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/Response_to_Finance_Committee_draft_Budget.pdf
194. Improving outcomes can take a long time and so plans for spending to achieve this need to be set out over multiple years. As the AGS stated in oral evidence to the Finance and Constitution Committee –

“Thinking in the longer-term about how to improve outcomes … means that thinking about what public spending achieves needs to be over a longer term than the single-year budget or the overall fiscal thinking that goes into the comprehensive spending review and the United Kingdom picture.”

195. The FAI has similarly recommended that budget decisions are based much more explicitly on intended outcomes rather than funding inputs –

“In times of budget constraint, understanding the rationale for spending decisions takes on even greater importance. Rather than making spending pledges based on inputs, we should be thinking about the impacts of policy over the medium to longer term, and how these will support the delivery of key performance objectives.”

196. Taking this longer-term view could allow for a greater emphasis on outcomes throughout the budget cycle. This would include making clearer links between spending plans and intended outcomes, assessing value for money, and reporting on the impact of spending on performance.

197. The Scottish budget sets out spending by portfolio. This approach can encourage a focus on inputs, such as how much spend in a portfolio area has increased. Consideration of what the spend is intended to achieve – that is, how it might support the delivery of outcomes – can be lost.

198. A more strategic alignment of spend to outcomes could include:

- Linking specific lines in the budget with the priorities or outcomes in the NPF they are intended to support or improve.
- Providing a narrative explaining how changes in spending from year to year are supporting a particular priority or policy commitment.

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79 [https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf](https://www.sbs.strath.ac.uk/economics/fraser/20160913/ScotlandsBudget-2016.pdf)
Public Audit

199. A key issue for the Group within the context of a full year approach to financial scrutiny is to develop effective links between the budget process and the audit function provided by Audit Scotland. Although Audit Scotland’s 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 its work, this includes in relation to budget scrutiny.

Performance Audits

200. There may be opportunities for the subject committees to make more use of performance audits in developing an outcomes based approach to budget scrutiny. The AGS arranges for a programme of performance audits to be undertaken on her behalf by Audit Scotland, which examine economy, efficiency and effectiveness (section 23 reports). This is coordinated with the Accounts Commission’s programme of performance audits in local government and often includes a number of joint audits. The AGS is responsible for determining the programme of performance audits, but must take into account any proposals made by Parliament.

201. Audit Scotland carries out around fourteen performance audit reports each year on behalf of the AGS and the Accounts Commission. The programme is prepared and published on a rolling basis, is based on Audit Scotland’s analysis of the key risks facing the public sector, and is currently framed around nine areas:

- Further devolved powers and responsibilities;
- Performance and outcomes;
- Delivery of stated policy and priorities;

Consultation Questions

- What information should the Scottish Government provide in its budget documents to show the links between its budget allocations and the NPF?
- What level of performance information should Scotland’s public bodies publish against the NPF?
- What should be the role of Parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?
• Challenging financial outlook;
• Skills and capacity;
• Changing/reforming public services;
• Leadership and scrutiny;
• Economic drivers; and
• Capacity / track record in developing the digital environment.

202. Generally performance audits cover a particular cross-cutting issue which incorporates audit work across a number of public bodies. Often this will include the Scottish Government’s contribution in the selected area. They may on occasion be focussed on a single body, but this is unusual. All Section 23 Reports are considered by the Public Audit and Post-legislative Scrutiny Committee, which may choose to conduct further enquiries. Reports may also be considered subsequently by subject committees where they contain matters relevant to their remits.

Consultation 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?
CONCLUSION

203. The Group would welcome a response on all or any of the questions within this report as well as any general comments on our five key themes:

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

204. The scale of this challenge is reflected in the range and complexity of the issues addressed in this interim report. This necessitates transformational change to the budget process as highlighted by the Cabinet Secretary for Finance and the Constitution. This will require the Scottish Government and the Scottish Parliament to work both together and with other bodies such as Audit Scotland and more generally with civic Scotland if we are to deliver the level of change required and deliver a world class financial scrutiny process.

205. The deadline for submissions is **Friday 28 April**.

206. All responses should be sent electronically (in Word format – no confirmatory hard copy required) to finance.constitution@parliament.scot. Written responses will be handled in accordance with the Parliament’s policy for handling written evidence received in response to calls for evidence. All written evidence received may be published by the Parliament and will be treated as a public document. If you wish to submit evidence in confidence or anonymously please read the policy at the link above.
ANNEX A – CONSULTATION QUESTIONS

A list of the consultation questions can be downloaded from the Finance and Constitution Committees website at: Finance and Constitution Committee Website

Theme 1: How effective is the existing budget process?

Principles Based Approach

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

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?

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?

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?
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?

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?

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?
16. What level of information should the Scottish Government publish?
17. What should be the role of the parliament’s committees in scrutinising Spending Reviews?
**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?
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?

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

*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?
23. What level of performance information should Scotland’s public bodies publish against the National Performance Framework?
24. What should be the role of parliament in scrutinising the performance of Scotland’s public bodies in delivering outcomes?

*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?
ANNEX B – GLOSSARY

Annually Managed Expenditure (AME)

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

Capital Expenditure

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

Current Expenditure

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

Departmental Expenditure Limits (DEL)

Broadly speaking, the bulk of the budget that covers programme expenditure and running costs of the Scottish budget. DELs are firm plans for three years. However, some spending is excluded from the DEL because it cannot reasonably be subject to close control over a three year period (this part is known as Annually Managed Expenditure). DELs are divided into current (or resource) and capital budgets.

Financial Issues Advisory Group (FIAG)

FIAG was set up in February 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be —open, accessible and accountable to the people of Scotland. As a result of these recommendations (which are enshrined in the Public Finance and Accountability (Scotland) Act 2000 (asp no 1)), the Parliament has the opportunity to comment on the Government’s spending plans at several points during the year prior to the annual budget being agreed.
**In-Year Changes**

Changes to expenditure allocations during the budget year.

**Non-Domestic Rates Income (NDRI)**

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

**Outturns/Estimated Outturns**

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

**Real Terms Figures**

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

**Scottish Consolidated Fund**

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

**Total Managed Expenditure (TME)**

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