

# The Budget Process Session 6 Agreement between the Scottish Government and the Finance and Public Administration Committee

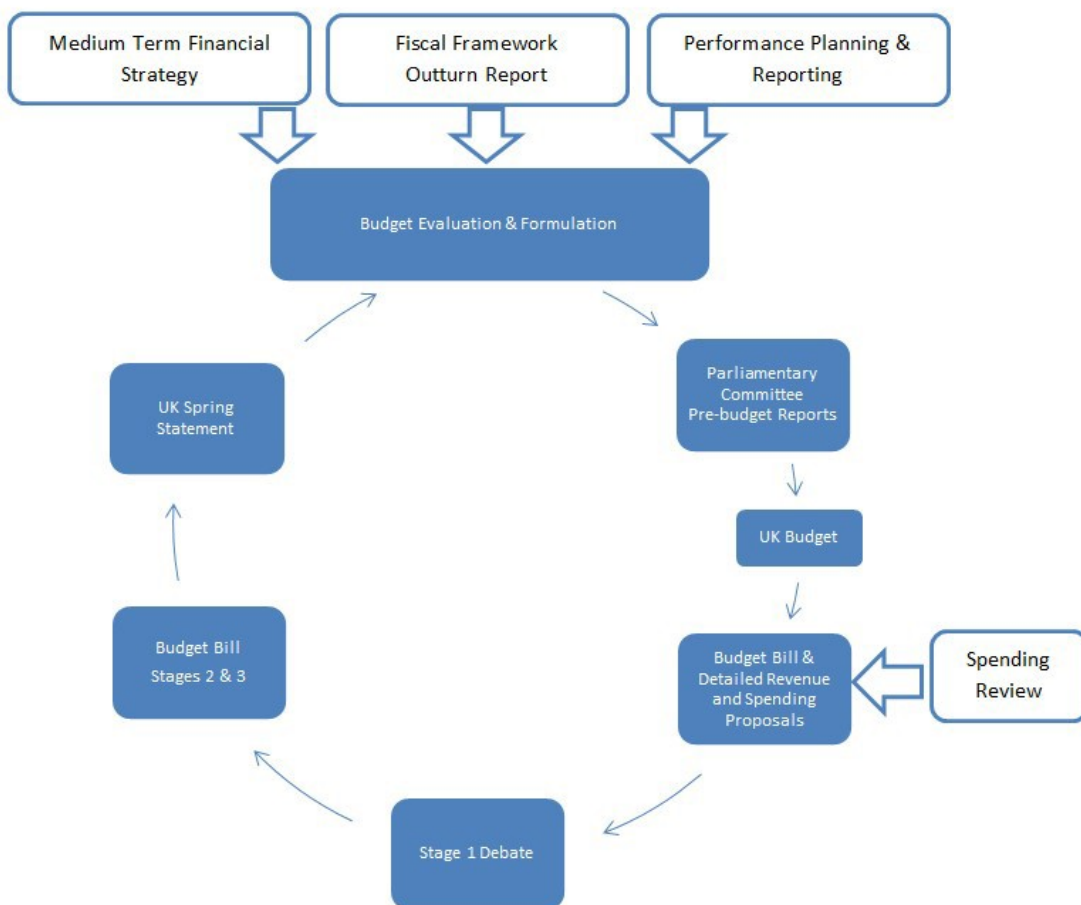
## Introduction

1. This agreement sets out an understanding between the Finance and Public Administration Committee and the Scottish Government on the administrative arrangements for the annual budget process and other related budgetary matters. It is based on the agreement between the Session 5 Finance and Constitution Committee and the Scottish Government as revised following the recommendations of the Budget Process Review Group. The Group which consisted of a range of external experts as well as Scottish Parliament and Scottish Government officials published its final report on 30 June 2017: [http://www.scottish.parliament.uk/S5\\_Finance/Reports/BPRG\\_\\_Final\\_Report\\_30.06.17.pdf](http://www.scottish.parliament.uk/S5_Finance/Reports/BPRG__Final_Report_30.06.17.pdf)
2. Both the Finance and Constitution Committee and the Scottish Government welcomed the recommendations of the Review Group and agreed to implement them.
3. The budget process should have the following four core objectives –
  - To have a greater influence on the formulation of the budget;
  - To improve transparency and raise public understanding and awareness of the budget;
  - To respond effectively to new fiscal and wider policy challenges; and
  - To lead to better outputs and outcomes as measured against benchmarks and stated objectives.
4. Budget scrutiny should be carried out within the following framework –
  - **Full Year Approach:** a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals;
  - **Continuous cycle:** scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a

- number of years including budgetary trends;
- **Output / outcome focused:** scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes;
- **Fiscal Responsibility:** scrutiny should have a long-term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services; and
- **Interdependent:** scrutiny should focus more on the interdependent nature of many of the policies which the budget is seeking to deliver.

5. This approach is summarised in Chart 1 below.

Chart 1: Overview of Revised Budget Process



## Budget Evaluation and Formulation

6. The Review Group recommended that the optimum time for the Parliament's

committees to influence the Budget is when priorities are being set. Committees should therefore seek to influence the Budget prior to firm spending proposals being published through constructive dialogue with Ministers, public bodies and other stakeholders. This should be based on evidence gathering, review and evaluation of existing policy priorities, how these are being funded and implemented and what is being achieved. Scrutiny should also include consideration of the financial, economic and policy context.

7. To support this approach the Scottish Government will publish annually a medium-term financial strategy and a fiscal framework outturn report. The Scottish Government and public bodies will also strengthen their performance planning and reporting to provide a greater focus on the delivery of outcomes.

## Medium Term Financial Strategy (MTFS)

8. The Scottish Government will publish an annual MTFS setting out its expectations and broad financial plans/projections for at least five years ahead on a rolling basis. This will be published each year following the UK Spring Statement and normally at least 4 weeks prior to summer recess. If the Scottish Government cannot meet this deadline, it should consult with the Finance and Public Administration Committee.
9. The Scottish Fiscal Commission will have a significant role in providing forecasts for incorporation into the MTFS in the areas set out in its statutory remit. These forecasts will be published at the same time as the MTFS.
10. Initially the Scottish Government should work towards the MTFS consisting of the following four elements –
  - Forecast revenue and demand-led expenditure estimates from the Scottish Fiscal Commission and their effect on Scotland public finances;
  - Broad financial plans for the next five years;
  - Clear policies and principles for using, managing and controlling the new financial powers; and
  - Scenario plans, based on economic forecasts and financial information in order to assess the potential impact of different scenarios on the budget.

11. The Finance and Public Administration Committee and Scottish Government should keep the content of a MTFS under review as it develops over time.

## Fiscal Framework Outturn Report

12. The Scottish Government will publish an annual Fiscal Framework Outturn Report. This will cover the following elements of the Fiscal Framework –
  - Reconciliation process;
  - Scotland Reserve;
  - Borrowing powers; and
  - Social Security powers as these are devolved to the Scottish Parliament.
13. The report will be published in September and based on audited information as far as possible. For income tax final audited data will not be available for the previous financial year. However, HMRC's published estimated outturn data should be included in the outturn report. The report should include the material set out in Box 1 of the Review Group's final report below.

## Box 1: Outline contents of the annual Outturn Report

### Reconciliation Process

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

### Scotland Reserve

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

### Borrowing

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

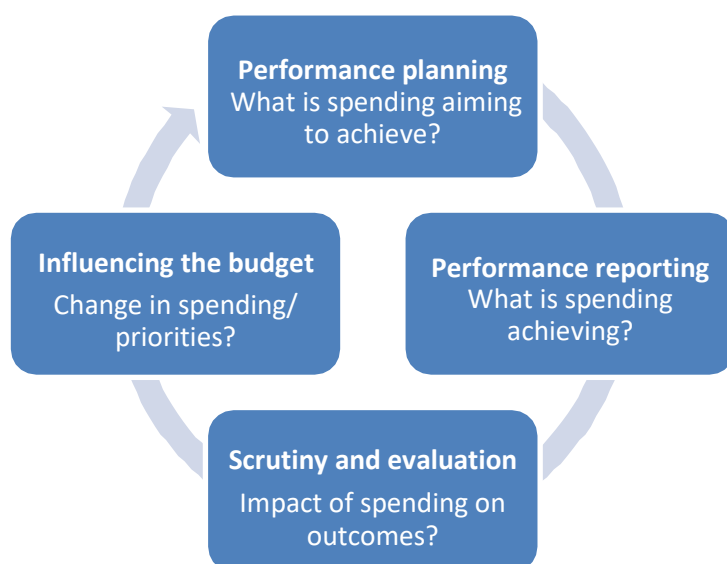
Implications of borrowing in terms of estimated profile of future repayments

## Performance Planning and Reporting

14. The Finance and Public Administration Committee and the Scottish Government agree that an outcomes-based scrutiny approach provides a

means for evaluating the economic and social outcomes being achieved by public spending. This involves bringing financial and performance information together, so that the impact of spending decisions can be better understood. The main components of this are illustrated in Figure 1.

**Figure 1 – Components to establish impact of spending decisions**



15. The Scottish Government will work with Scotland’s public bodies in strengthening performance planning and reporting to provide a greater focus on the delivery of outcomes. This means providing better information about what activity public spending will support, what this aims to achieve, the contribution this is expected to make to outcomes, how plans are being delivered and the impact this is having. Scottish Government guidance will make clear that public bodies should report on their contribution to the National Performance Framework in their published corporate and business plans and annual reports to best support parliamentary scrutiny of their activities and public spending.
16. The Parliament’s committees should consider relevant Scottish Government and public body performance plans and reports, alongside other available evidence on the intended impact of policies and public spending and the effect these are having. This will be a key part of how the Parliament’s committees evaluate public spending and how they seek to influence the formulation of future spending proposals.

## Pre-Budget Reports

17. Each Committee should write to their respective Portfolio Minister at least 6 weeks prior to the publication of the Budget setting out their views of the delivery, impact and funding of existing policy priorities and any proposed changes. Any proposals for increased expenditure also require a proposal or range of options setting out how the additional spending will be funded.
18. Pre-Budget reports should include each Committee's findings on the impact of spending on outcomes and the implications of these findings for future spending plans, including any suggested changes to policy priorities or allocation of resources. There is no requirement for pre-budget reports to be sent to the Finance and Public Administration Committee.

## Spending Reviews

19. There is a presumption that the Scottish Government will carry out a Spending Review, linked to the equivalent UK Spending Review. Where the Scottish Government plans to diverge from linking a Spending Review to the UK equivalent then it will write to the Finance and Public Administration Committee setting out the reasons for doing so.
20. At a Spending Review, the Scottish Government will publish a framework document setting out the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for review. The framework document will be published prior to Summer recess in order to allow sufficient time for parliamentary scrutiny and input into the Spending Review.
21. The Parliament's committees should undertake a constructive dialogue with Ministers, public bodies and stakeholders once the framework document is published in order to influence the outcome of the Spending Review.

## Budget Bill and detailed revenue and spending proposals

22. The Finance and Public Administration Committee and the Scottish Government agree that the Scottish Budget document will normally be published the week

before the introduction of the Budget Bill and no more than three working weeks after the publication of the UK Autumn Budget. While these timings are not fixed it is expected that both the Scottish Budget document and the Budget Bill will normally be published prior to Christmas recess and this is reflected in the timings for the Budget Bill process in the Standing Orders. As soon as the timing of the UK Autumn Budget is known, the Scottish Government will consult the Finance and Public Administration Committee regarding the timing of the Budget Bill and the Scottish Budget.

23. The Scottish Government will continue to work with the Finance and Public Administration Committee to further improve Budget documentation. In particular, it is recognised that the complexity and potential volatility of the new financial powers requires a renewed focus on openness and transparency in budget documents.
24. The Scottish Government agrees that it will make the changes to Budget documentation recommended by the Review Group as set out in **Annexe A**.

## Stage 1

25. The Budget document should include a summary of how submissions from the Parliament's committees have influenced the formulation of the Budget. Ministers will then provide a more detailed response to individual Committees within five sitting days from the publication of the Budget. Each committee will then have the opportunity to hear oral evidence from their respective Ministers.
26. Committees should then consider whether they are content with the Scottish Government's response and it is at this stage that consideration may be given to any alternative revenue and spending proposals. Committees and individual Members will, as they are now, be able to seek to make alternative revenue and spending proposals through reasoned amendments to the motion on the general principles of the Budget Bill at Stage 1.
27. The Standing Orders require the Bureau to provide time for a committee debate in the chamber prior to the Stage 1 debate on the general principles of the Budget Bill. Time should be provided during the debate for each relevant convener, or a representative of the committee, to set out how their committee has sought to influence the budget and to allow the Government an opportunity to respond. The debate should be led by the Finance and Public



Administration Committee. The Finance and Public Administration Committee will also produce a report on the Budget. This should focus on the wider picture of revenue and expenditure and whether they are appropriately balanced.

## Stages 2 and 3

28. Only Ministers can lodge amendments to the Budget Bill at Stage 2 and Stage 3. If Ministers do not intend to lodge formal amendments to reflect any reasoned amendments agreed by the Parliament at Stage 1, a written explanation will be provided to the Finance and Public Administration Committee in advance of Stage 2.

## Revisions

29. This agreement will be jointly reviewed by the Finance and Public Administration Committee and the Scottish Government following the review of the operation of the Fiscal Framework by the Scottish and UK Governments or at any other time by mutual agreement.

## Annexe A

The Scottish Government agrees to make the following changes to Budget documentation in order to improve the accessibility and transparency of the Budget –

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

# Agreement on In Year Changes to Expenditure Allocations

## Purpose

1. This document sets out an understanding between the Scottish Government and the Scottish Parliament on the administrative arrangements for:
  - the reallocation of expenditure within portfolios of the Scottish Government;
  - procedures for making contingency payments during the year;
  - controls on contingent liabilities.

It is not intended to create any legal rights or obligations on either the Scottish Government or the Scottish Parliament.

## In year transfers between portfolio budgets

2. The previous agreement said that the Scottish Ministers and the Finance Committee are agreed that in future Budget Acts a single Scottish Government budget figure will be provided for net expenditure and total income limit. Separate budget approvals will still be required for the Forestry Commission, the Food Standards Agency, the Scottish Parliamentary Corporate Body and Audit Scotland. This remains the case with the exception of Food Standards Scotland (formerly Food Standards Authority) which now sits within the Scottish Government budget.
3. The Scottish Government will continue to set, manage and report budgets against individual totals at Portfolio level, which will be agreed by the Parliament through the Budget Bill, as well as through the Budget Revisions. In accordance with the previous agreement, Scottish Ministers will still not be able to transfer funds between these limits, including between individual portfolios of the Scottish Executive, without the approval of the Parliament.

## Reallocation of expenditure within departments of the Scottish Government

4. FIAG recommended that the Executive should be allowed to move funds within portfolio budgets to respond to changes in need. The Group recommended that transfers should be subject to internal controls. It also recommended that the Parliament should be informed of transfers on a regular basis.
5. FIAG also recommended that the total amount of funds that may be transferred in this way should be limited. The Group recommended that transfers between "budget sections" should be no more than £50 million, (at 1999 values) or 15% of the receiving section, whichever is the lesser. (A "budget section" refers to the level below the portfolio as a whole – Level 2 in the budget document.) FIAG recommended that transfers within budget sections should be unlimited. This recommendation will be given effect by the Scottish Parliament and the Scottish Ministers in accordance with this understanding.
6. The Scottish Government undertake:
  - Not to move provision from one budget section to another in such a way as to increase the total budget for that section by more than 15%, or £75 million at 2016 values, whichever is the lesser, without seeking the specific approval of the Parliament through the Budget revision procedure.
  - To inform the Parliament of movements between budget sections that are within these limits at the time Budget revisions are made.
  - To inform the Parliament of movements within budget sections in as much as they affect the detail set out in the documents accompanying the Budget Bill (the Budget documents), when seeking Budget revisions.
7. It remains open to the Scottish Government to continue to make use of the flexibilities provided by this agreement and outlined above (the process is technically known as "virement" or "viring between budgets") after the last budget revision of the year. There is however no vehicle by which changes made at this point can be reported to the Parliament. The Scottish Government will therefore prepare its accounts on the basis that budgets at the end of the year were those contained in the last budget revision, that is, as if no further virement had taken place. The accounts will then show moves between budget heads as offsetting over- and underspends.
8. The Scottish Government agrees that the Spring Budget Revision will be accompanied by a mid-year report on revenue and spending up to the end of December of the current financial year.

## Contingency payments

9. Under the terms of the Public Finance and Accountability (Scotland) Act 2000, the Scottish Government have powers, in certain circumstances, to authorise the use of resources up to 0.5% of the total budget in any financial year without the prior authority of the Parliament. A separate limit of £50 million is currently placed on this power as part of the annual Budget Acts.
10. The Scottish Government can only use this facility if it is necessary to do so in the public interest and if it is not reasonably practicable, for reasons of urgency, to seek prior Parliamentary approval by means of Budget legislation. Unless the circumstances are such that extreme urgency makes it impossible, the Scottish Government will lay a report before the Parliament at least 14 calendar days before undertaking any expenditure. Should the requirement to use the power arise during a recess, a report will be presented to the Parliament as soon as Parliament returns from recess.
11. Details of any such contingency payments will appear in the Scottish Government's annual accounts.

## Contingent liabilities

12. FIAG recommended that the authority of the Parliament is required before the Scottish Government can grant a guarantee or indemnity which would, in effect, bind the Parliament into providing the expenditure in the event of the guarantee or indemnity maturing. This does not apply to a guarantee or indemnity which is granted under a statutory requirement to do so or is of a standard type and arises as an unavoidable feature of an activity authorised by statute.
13. The Scottish Government undertake to notify the Finance and Public Administration Committee of all contingent liabilities between £300,000 and £2.5 million. The Committee will then have the opportunity to decide what action if any it wishes to take on the Contingent Liability.
14. The Scottish Government undertake, before granting any guarantees or indemnities in excess of £2.5 million (including those without limit), to submit their proposals to the Finance and Public Administration Committee. The Scottish Government agrees to provide the Committee with as early notice of the contingent liability as practically possible so as to allow sufficient time for effective scrutiny.
15. The Committee agrees to consider each contingent liability in excess of £2.5 million at the earliest opportunity and may take evidence from the appropriate

Minister before deciding whether to approve the proposal or to propose an amendment or recommend that the proposal is rejected. If the Scottish Government does not agree with the Committee's recommendation, then the Committee following further information from the Scottish Government may either allow the Scottish Government to proceed or refer the matter to the Parliamentary Bureau for consideration. It will then be for the Parliament to agree whether or not to allow the Scottish Government to proceed.

16. Where the Scottish Government requests that a contingent liability should be considered by the Committee in private session it will provide a full explanation for the reasons for this request when submitting its proposal. In doing so the Scottish Government recognises that the Committee will only agree to take evidence in private in exceptional circumstances.
17. Where there is agreement to consider a contingent liability in private both the Finance and Public Administration Committee and the Scottish Government agree not to make public any of the details discussed during the private session. The Scottish Government will also agree with the Finance and Public Administration Committee what information can be made public in relation to the contingent liability itself.
18. The Scottish Government will notify the Committee, normally within 14 days, of any costs incurred as a consequence of a contingent liability and once it has expired. The Scottish Government will also provide the Committee with an update annually, normally in September, of outstanding contingent liabilities including any costs incurred.<sup>1</sup>

## Revisions to this agreement

19. The Scottish Ministers or the Finance and Public Administration Committee may propose amendments to this agreement. If the Committee and the Scottish Ministers are unable to agree the changes that are proposed, they may ask the Parliamentary Bureau to arrange a plenary debate on a proposal(s).

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<sup>1</sup> This paragraph was added on 24 March 2021