Introduction

1. The aim of this paper is to provide guidance to parliamentary committees on the budget process following the Budget Review Group’s review of the budget process. The Group reported its findings on 30 June 2017 and relevant chapters of that report should be read in conjunction with this guidance.


Framework and objectives of the new approach

2. The Group recommended the following framework for the new budget process—

- **Full Year Approach**: a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals;

- **Continuous cycle**: scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends;

- **Output / outcome focused**: scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes;

- **Fiscal Responsibility**: scrutiny should have a long term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services; and

- **Interdependent**: scrutiny should focus more on the interdependent nature of many of the policies which the budget is seeking to deliver.

3. The budget process should have the following four core objectives—

- To have a greater influence on the formulation of the Scottish Government’s budget proposals;

- To improve transparency and raise public understanding and awareness of the budget;

- To respond effectively to new fiscal and wider policy challenges; and

- To lead to better outputs and outcomes as measured against benchmarks and stated objectives.
4. Parliamentary committees should seek to influence the Budget when priorities are being set through constructive dialogue with Ministers, public bodies and other stakeholders. This dialogue should continue throughout the year using an outcomes based approach.

5. The components of the revised budget process is attached at Annexe A and the revised structure for the budget process is illustrated in Chart 1 below and an infographic on the new budget process is attached at Annexe B to this guidance.

**Chart 1: Overview of Revised Budget Process**

Outcomes based budget scrutiny

6. Outcomes based budget scrutiny underpins the new approach for subject committee budget scrutiny. The Scottish Government has adopted an outcome-based approach to its objectives since 2007. Ministers are expected to work towards the shared objectives of government and a new emphasis was placed on partnership working with the whole of the public sector expected to contribute to the delivery of
national objectives as set out in the National Performance Framework (NPF)\(^\text{1}\), introduced in 2007 and refreshed in 2011 and 2016. The NPF is intended to provide “a unified vision and quantifiable benchmarks against which future progress can be assessed.”

7. This outcomes-based scrutiny approach will be a key part of the revised budget process which will provide a means for evaluating the economic and social outcomes being achieved by public spending. It will involve bringing financial and performance information together, so that the impact of spending decisions can be better understood. This approach is illustrated below

8. Public bodies and councils have an important role in delivering Scottish Government policy and contributing towards improved outcomes and decisions about their overall funding are a key part of the budget process. In adopting an outcomes based scrutiny approach, committees should scrutinise the extent to which public bodies within their remit are spending their allocations well and achieving outcomes.

9. Public bodies publish corporate plans which set out in detail how they plan to use their available resources and they are required to consider the National Outcomes in carrying out their functions. Public bodies also publish a range of information about their performance in the application of public spending including annual reports and accounts.

\(^{1}\) [http://www.gov.scot/About/Performance/scotPerforms/pdfNPF](http://www.gov.scot/About/Performance/scotPerforms/pdfNPF) [accessed September 2017]
10. Additional information to support outcomes-based scrutiny should include performance audit reports and annual audit reports on individual public bodies. These reports provide objective information and independent assessment on the public finances, performance and value for money. Audits often examine whether public money is being used to best effect to support the delivery of outcomes. There is an ongoing programme of work undertaken on behalf of the Auditor General and Accounts Commission that can be drawn from to support outcomes-based scrutiny by committees. Auditor General Reports should continue to be considered by the Public Audit and Post Legislative Scrutiny Committee in the first instance.

11. A critical aspect of the Parliament’s budget evaluation and formulation activity is that it is evidence-based so subject committees should also 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.

12. This helps the Parliament contribute to the evidence base available for policy setting and for it to influence the Scottish Government’s budget decisions. To support their scrutiny of selected themes or areas of activity, committees are able to draw on a basket of evidence drawn across a range of sources. This includes published material, as well as requesting written submissions and oral evidence sessions with ministers, Scottish Government officials, public bodies, service users and other stakeholders. The Group considered the range of evidence likely to be available to committees, and a summary of this is shown in figure below—
13. The Group recognised that committees would be unlikely to be able to undertake detailed scrutiny of spend and performance in all areas under their remit every year. It concluded that it would be necessary for them to agree the themes or area of activity they wished to focus on, and those they wished to track through time. Considerations might include—

- the policy and spending priorities of the Scottish Government;
- significant areas of public spending or significant changes to spending levels;
- importance to specific national outcomes that the committee has an interest in, including overarching equality considerations; and
- where progress of national outcomes is slow or going in the wrong direction.

14. More information on outcomes-based scrutiny can be found in chapter 6 of the Group’s report.

Pre-Budget Reports

15. A key feature of the new full year approach to scrutiny will involve each committee writing to their respective Minister with their pre-budget report at least 6 weeks prior to the publication of the Budget. It should set out their views on the delivery and funding of existing policy priorities, any proposed changes and how these should be funded. This should include its 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.

16. There is no requirement for pre-budget reports to be sent to the Finance and Constitution Committee. Chapter 7 of the Group’s report outlines the revisions to the existing process including evaluation and formulation, of which the pre-budget report is key.

Budget Bill and detailed revenue and spending proposals

Budget Bill - Stage 1

17. The new approach to scrutiny means that the Scottish Government will no longer publish a Draft Budget prior to publishing the Budget documents. The Scottish Budget will normally be published no more than three working weeks after the publication of the UK Budget.

18. The Scottish Government will ensure that the Budget document will include a summary of how the Parliament’s committees have influenced the formulation of the Budget. Ministers will then provide a more detailed response to individual committees’ pre-budget reports 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 on the detailed response.

19. Committees should then consider whether they are content with the Scottish Government’s response and it is at this stage that the need for any alternative spending proposals is considered. Committees and individual Members will have the opportunity to propose alternative revenue and spending proposals through reasoned amendments to the Scottish Government motion on the general principles of the Bill.

20. Prior to the Stage 1 debate there will be a debate in the Chamber on the committee pre-budget reports and the response of Ministers in the Budget. It is expected that speaking slots will be provided for each committee convener or a representative of the committee. The debate will be led by the Finance and Constitution Committee.

21. The Finance and Constitution Committee will also produce a Stage 1 report on the Budget. This should focus on the wider picture of revenue and expenditure and whether they are appropriately balanced.

**Medium Term Financial Strategy (MTFS)**

22. 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.

23. The MTFS will provide an overview of financial implications of existing policy, so that these can be understood in formulating detailed budget proposals later in the budget cycle. More information on the MTFS, its formulation and parliamentary scrutiny can be found in chapter 5 of Group’s report.

24. The MTFS will consist 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.

25. Subject committees should draw on the MTFS financial planning information related to its portfolio as part of its on-going budget scrutiny.
Equalities

26. To date, the main expression of equalities issues within the budget process has been the publication of an Equality Budget Statement alongside the draft budget and this will be reviewed led by Equality and Budget Advisory Group (EBAG). It is vital that the link between equality and budgetary considerations is maintained, therefore there should be an equality product published alongside the budget, with the aim to supplement this document with separate equalities analysis published before summer recess in order to reflect the changing nature of the budget process.

27. Parliamentary committees should undertake public engagement on policy priorities, within their remit, prior to the publication of, and in order to inform, the Scottish Government’s budget. They should also engage with service users as well as service providers in evaluating the impact of previous budgets.

Climate Change

28. The previous Scottish Government stated that all ministers are climate change ministers. As part of their budget scrutiny, relevant committees are asked to scrutinise how proposed spending in their particular remit has taken account of climate change issues and will help the Scottish Government meet the targets set out in the Climate Change (Scotland) Act 2009.

29. All committees are required to consider climate change issues when scrutinising their own relevant Scottish Government portfolios, the ECCLR Committee are reflecting upon the progress made by all committees and the approach to future engagement on climate change scrutiny following publication of the Budget Review Group’s report and the Scottish Government’s Climate Change Plan (CCP), published in February 2018. In discussion with the Scottish Government the ECCLR Committee will be considering how the annual reporting on the CCP could form a useful additional element to the pre-legislative phase of the budget scrutiny process.

Conclusion

30. The Committee recognises that there are a number of competing demands on the work programme of all committees. The Committee, therefore, notes that the approach outlined in this Guidance will remove the constraints associated with the tight timescales for scrutiny of Draft Budget documents. Committees will now undertake a full year approach to Budget scrutiny which should be more effective in influencing the Scottish Government’s spending decisions and help committees

---

2 The relevant committees identified by the ECCLR Committee are: Economy, Jobs and Fair Work, Education and Skills, Equal Opportunities, European and External Relations, Finance, Health and Sport, Justice, Local Government and Communities Committee; Rural Economy and Connectivity; and Social Security.
develop a cumulative understanding of spending decisions within their respective portfolios and the impact of these decisions on outcomes.

Finance and Constitution Committee

April 2018
## Components of Revised Budget Process

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

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