

Inquiry into the Scottish Budget process in practice

Purpose

1. The Committee is invited to take evidence from Stephen Boyle, Auditor General for Scotland (AGS) in relation to the Committee's inquiry into the Scottish Budget process in practice. The AGS will be accompanied by Fiona Diggle, Audit Manager, Performance Audit and Best Value, Audit Scotland.
2. The written submission from Audit Scotland, responding on behalf of the AGS, is attached at Annexe A of this paper.
3. To inform the inquiry, a [summary of responses](#) has been produced, along with a [SPICe briefing](#) setting out how key aspects of the budget process have operated this session, including when relevant documents were published and the time available for their scrutiny.

Inquiry remit and approach

4. The Committee agreed on 4 February 2025 to carry out a short, focussed [inquiry into how the Scottish budget process has worked in practice this parliamentary session](#), with the following remit—
 - to establish the extent to which the four core objectives¹ for the budget process are being met,
 - to identify any barriers to meeting these core objectives and how these might be overcome,
 - to establish how key documents aimed at supporting the full-year budget process are currently being used and where improvements might be made to support effective scrutiny,
 - to determine whether the information, guidance and support provided to committees to assist them in their budget scrutiny remains adequate and fit-for-purpose, and
 - to identify any improvements that can be made to the budget process that can be put in place for Session 7 and to inform the scope of any future wider review carried out jointly by the Scottish Parliament and Scottish Government.

¹ The four core objectives of the budget process are that it has led to: greater influence on formulation of the Scottish Government's budget proposals, improved transparency and increased public understanding and awareness of the budget, responded effectively to new fiscal and wider policy challenges, and led to better outputs and outcomes as measured against benchmarks and stated objectives.

5. The Committee does not intend, as part of this inquiry, to revisit the four objectives or the full-year approach of the budget process, which were recommended by the [Budget Process Review Group in its 2017 report](#) and endorsed through the [Budget Process Session 6 Agreement](#) between this Committee and the Scottish Government.²
6. The Committee ran a [call for views](#) from 12 February to 26 March 2025. It also [sought the views of other Scottish Parliamentary committees](#) on how the budget process operates from their perspective and if the support and guidance they receive could be enhanced. 32 submissions were received, including seven from committees. Witnesses providing evidence on 22 April³ also submitted written evidence in advance of that meeting which is available on the Committee's inquiry web pages.
7. Evidence sessions for this inquiry began on 1 April and are due to continue throughout May. The Committee is expected to publish a report of its findings in June 2025.

Previous evidence sessions

Scottish Fiscal Commission

8. The Committee took evidence from the Scottish Fiscal Commission (SFC) at its first evidence session for this inquiry on [1 April 2025](#). The following key issues were discussed—
 - The SFC welcomed greater transparency in budgetary information, including publication of annual spending allocations by Classifications of Functions of Government (COFOG), as well as comparisons between next year's Budget and the latest spending position in the current year.
 - However, more transparency and consistency of presentation is needed, including in relation to regular in-year transfers, pay and workforce data, and climate change data.
 - It is unclear to what extent the Scottish Government's Medium-Term Financial Strategy (MTFS) informs Government decisions. Options for publishing the MTFS in election years should be explored to ensure there is no gap in medium-term outlook at the start of a five-year session.
 - There is uncertainty regarding what information the new Fiscal Sustainability Delivery Plan (FSDP) will contain or where it fits into the budget process. The SFC's view is that the FSDP should recognise long-term pressures and set out the actions the Scottish Government is taking now to start to address these.
 - While recognising the volatility in recent years, the SFC stressed the importance of carrying out regular comprehensive Scottish Spending Reviews (SSRs), which provide sufficient detail rather than being 'high-

² Any wider review would require to be carried out jointly by a successor committee and Scottish Government.

³ [The Office for Budget Responsibility](#), [Professor Mairi Spowage, Director of the Fraser of Allander Institute](#), and [Professor David Bell, Professor of Economics, University of Stirling](#).

level'. It was noted that the 2022 Resource Spending Review "was not detailed enough" and that future SSRs should also reflect where additional funds would be spent if they become available and also where cuts would be made if less funding materialises.

- Challenges with engaging the public in the budget process were discussed, including that the fiscal framework can seem "intimidating".
- The need to better understand where public money is being spent and what outcomes are being achieved as a result was also highlighted.
- Ideally, the SFC needs four to five working weeks after the UK Autumn Budget has been published to develop forecasts for the Scottish Budget.

Office for Budget Responsibility (OBR)

9. At its meeting on 22 April, the Committee took evidence from the OBR when the following issues were explored—

- Its efforts to enhance transparency in relation to its role and forecasts that impact the Scottish Budget, including explaining in more detail where its judgements differ from those of the SFC.
- The regular engagement that takes place between the SFC and OBR, including the sharing of information, assumptions, and modelling approaches.
- How it learns lessons and updates modelling where inaccuracies are identified through its forecast evaluation of Scottish forecasts and uses real-time data to supplement outturn information,
- The timetable for the UK Government supplying policy information is usually adhered to though late notice of policy commitments does occur and impacts forecasts, including recent welfare reforms.
- The panel's view that there is no optimum or ideal timing and sequencing of OBR and SFC forecasts.
- How the OBR forecasts and scrutinises department spending at UK level, including the outcomes of its review into the preparation of its March 2024 forecast for departmental expenditure limits.
- Its role in evaluating the long-term sustainability of the UK public finances and assessing fiscal risks, including fiscal pressures due to the ageing population, long-term pressures on health spending, and the potential fiscal impact of climate change.

Professor Mairi Spowage and Professor David Bell

10. The Committee also took evidence on 22 April from Professor Mairi Spowage, Director of the Fraser of Allander Institute (FAI) and Professor David Bell, Professor of Economics at Stirling University. The following issues were discussed—

- While greater transparency has been achieved in relation to budgetary information, further improvements can be made including clarity around regular in-year transfers in the Scottish Budget.

- The Scottish Government's Medium-Term Financial Strategy (MTFS) has not delivered what was envisaged by the BPRG. It was suggested that the document is too party-political and is being used as a "tool of expectation management" for Government. Instead, the Scottish Government should focus on providing detailed spending plans, challenges, and scenario planning, as well as clear narrative on how the Scottish Government is dealing with major medium- and longer-term challenges.
- Confusion around how the Programme for Government and other key strategic documents link together and align with budgets and outcomes in the National Performance Framework.
- Scotland would benefit from zero-based budgeting taking place every decade or so, where departments are challenged on spending rather than "just taking baselines as a starting point".
- Spending reviews should take place every three years or so for resource, and every five to seven years for capital. It was recognised that spending reviews do take up a lot of resource in Government, however, it is "essential for the next Parliament that there is a medium to longer-term plan", particularly within the context of increasing external risks.
- Capacity issues with MSPs, committees and the Parliament which impact on their ability to carry out impactful whole-year budget scrutiny.
- Guidance for Committees could ask Committees to distinguish between short- and longer-term concerns in their pre-budget reports. The 'Committee of the Future' model, for example that in Finland, was highlighted as an option to bring more of a scrutiny focus on longer-term challenges.
- Both governments should be more proactive in allowing access to data to support more impactful budget scrutiny and transparency.
- Developing the fiscal literacy of all MSPs is crucial.
- Possible expansion of the parliamentary budget office model was discussed. The Financial Scrutiny Unit (FSU) in SPICe has similar functions, including providing a confidential enquiry and costing service to MSPs. As this could support and encourage more involvement in the budget process from all MSPs, there may be scope to further promote this service.

Evidence session with the AGS and Audit Scotland on 29 April

11. The Committee is due to take evidence from the AGS and Audit Scotland on 29 April. Their written submission attached at Annexe A states that the effectiveness of budget scrutiny relies on key documents being available at certain points in the year covering short- and longer-term information. It goes on to say however that—

"In recent financial years, the focus of financial management and sustainability decisions taken by the Scottish Government has been predominantly short-term. Without an up-to-date picture of the financial management of the medium-term position, it is difficult to see whether the annual spending decisions of the Scottish Government are helping or hindering longer-term financial pressures."

12. The absence of an MTFS in 2023 and delays to publishing the Infrastructure Investment Pipeline Refresh “makes scrutiny of the current uncertain financial situation more difficult”. It goes on to say that the Scottish Government “has not been sufficiently transparent with the Scottish Parliament or the public about the current fiscal situation [...and] there has not been enough communication of medium-term risks and what choices the Scottish Government needs to make to balance its budget”.
13. The MTFS, the submission argues, should include specific detail on how any projected spending gap might be closed, integrate more information on workforce, and link to the outcomes in the NPF. In addition, a revised Medium-Term Financial Framework for health and social care that clearly aligns with the MTFS should also be published.
14. The submission further argues that the planned Fiscal Sustainability Delivery Plan “should be fully transparent about the scale of the risks to the affordability of public services and options for how the Scottish Government can manage them” and should include “actions that are detailed, proportionate, and timely”. More broadly the AGS and Audit Scotland continue to call for greater transparency in relation to budgetary information “to enhance the overall effectiveness of the budget process”.

Next steps

15. The Committee will continue taking evidence in relation to its budget process inquiry during May and is expected to report its findings in June 2025.

Committee Clerking Team
April 2025

Written submission from the AGS and Audit Scotland

1. To what extent have the following four objectives for the Scottish budget process been met this parliamentary session – please address each of the below points in turn.

The budget process, as set out in the Budget Process Review Group's 2017 report, is designed to enable year-round budget scrutiny. The effectiveness of this scrutiny relies upon key documents being available to support the Scottish Parliament at different points throughout the year.

Broadly speaking, the information required for effective scrutiny is:

- Short-term information on annual tax and spending decisions, and how these are monitored and adjusted in the financial year. Examples include information published with the annual budget, outturn reporting and autumn and spring budget revisions.
- Longer-term information which sets out how budget decisions contribute towards progress against outcomes and financial sustainability goals, which are reached over several years. Examples include medium-term financial plans, multi-year spending plans, tax strategies, infrastructure plans and national outcomes monitoring.

In recent financial years, the focus of financial management and sustainability decisions taken by the Scottish Government has been predominantly short-term. The Auditor General reported in his 'Fiscal sustainability and reform in Scotland' report that the Scottish Government continues to take short-term decisions, reacting to events and external shocks rather than making fundamental changes to how public money is spent. Immediate budget pressures, such as costs associated with pay awards, have been met through short-term reactive measures, rather than more considered long-term reforms.

Without an up-to-date picture of the financial management of the medium-term position, it is difficult to see whether the annual spending decisions of the Scottish Government are helping or hindering longer-term financial pressures. While the medium-term position was set out each year at the start of the parliamentary session through the Medium-Term Financial Strategy (MTFS), the publication of the most recent MTFS, the Health and Social Care Portfolio Medium-Term Financial Framework and the Infrastructure Investment Plan pipeline reset were delayed following announcement of the UK General Election date, having been due for publication in May 2024. The absence of these documents makes scrutiny of the current uncertain financial situation more difficult.

As we have set out in several reports in recent years, uncertainty and volatility in the fiscal environment, including managing the financial impact of the Covid-19 pandemic and the consequences of higher inflation on both procurement and

workforce costs, has made managing the Scottish budget complex. The Scottish Government has balanced its budget throughout this period, predominantly through short-term means. In the coming year, there is an opportunity through the planned Medium Term Financial Strategy and Financial Sustainability Delivery Plan expected in May 2025, and further Public Sector Reform strategy documents to move to a longer-term perspective.

If done well, this will enable the Scottish Parliament and the public to better understand the scale of the challenge ahead and the Scottish Government's plans towards financial sustainability. In turn, we would expect this approach to be reflected in annual budgets and other year-round documentation, such as outturn reports and performance reports, and in longer term plans such as Spending Reviews.

In summary, based on recent work, the Auditor General has found the following:

- Formulation of budget proposals: The Auditor General's November 2024 report on 'Fiscal sustainability and reform in Scotland' considered the process for developing the Scottish Government's budget proposals. The report highlighted that the limited information about the long-term impact of reductions in spending included in the 2024/25 budget have not been consistently and publicly set out, which restricts the Scottish Parliament's ability to understand and fully scrutinise the budget bill that the Scottish Government puts forward for its approval.
- Transparency and public understanding: The Auditor General's report also highlighted that the Scottish Government has not been sufficiently transparent with the Scottish Parliament or the public about the current fiscal situation. There has not been enough communication of medium-term risks and what choices the Scottish Government needs to make to balance its budget.
- Effective responses to new fiscal and wider policy challenges: the Auditor General has set out the significant fiscal pressures the Scottish Government has faced in recent years, and the challenges these pose to wider policy commitments and government priorities. In 2022, he highlighted that "While the Scottish Government must continue to react to immediate events and financial pressures, this must not distract from the immediate need for broader reform."
- Better outputs and outcomes as measured against benchmarks and stated objectives: the National Performance Framework (NPF) is the key tool to support the tracking of outcomes. The NPF is currently under review, with the Deputy First Minister supporting the development and implementation of a stronger, more strategic and impactful framework that more accurately reflects Scotland's context and circumstances. The timelines for the reform of the NPF are not yet known.

2. Please set out any barriers to meeting the four core objectives of the budget process and suggestions as to how these might be overcome.

During this session, the timeline and budget processes have been impacted by external pressures:

- In 2021 following the Scottish Parliament election, a MTFS was published in December. This captured the pressures on the budget as a result of the Covid-19 pandemic.
- The next MTFS and Resource Spending Review were published in May 2022. These were shortly afterwards disrupted by the cost of living crisis and were followed by an Emergency Budget process in Autumn 2022 to amend spending plans for 2022-23. Additional in-year savings were also required in 2023 and 2024.
- While an MTFS was published in 2023, the 2024 MTFS was delayed as a result of the change in the Scottish Government's leadership and the UK General election.
- When the next MTFS is published, alongside the new Fiscal Sustainability Delivery Plan, in May 2025, two full years will have passed since the last MTFS.
- The publication schedule for the 2026 MTFS will likely be impacted by the Scottish Parliament election.

In the recent 'Fiscal sustainability and reform in Scotland' report, the Auditor General concluded that there has not been enough communication of medium-term risks and the choices the Scottish Government needs to make to balance its budget.

The regular publication of key fiscal information is essential for effective scrutiny. The Auditor General's report recommended that, given the ongoing fiscal risks and uncertainty, the Scottish Government should publish its financial and infrastructure medium-term strategies at the earliest opportunity. In addition, the planned Fiscal Sustainability Delivery Plan should be fully transparent about the scale of the risks to the affordability of public services and options for how the Scottish Government can manage them.

3. To what extent does the MTFS support a more strategic approach to the Scottish Government's financial planning?

Publication and parliamentary scrutiny of a medium-term financial strategy is an important component of a whole cycle approach to the budget. The latest MTFS, published in May 2023 was a step forward in comparison to previous years, as it began to look at the drivers of spending (such as pay and workforce) and highlight the impact of these on the medium-term position, including different scenarios for spending. The MTFS published during this session have also quantified the projected fiscal gap over the medium term, an improvement on the MTFS published during the previous parliamentary session.

In the recent audit, 'Fiscal sustainability and reform in Scotland', the Auditor General highlighted that in the MTFS 2023, the Scottish Government has set out an overarching approach to fiscal balance, but the detail and medium-term plans to support this are missing.

In the MTFS 2023, the Scottish Government set out three pillars of activity that will underpin its medium-term approach to managing public finances. The pillars comprise of focusing spending on achieving the Scottish Government's missions, sustainable, inclusive economic growth, and a strategic approach to tax.

The three-pillar strategy sets out a broad direction of travel, but does not provide the specific details about how each area of activity will contribute to fiscal sustainability or how long it will take, which are necessary for a more strategic approach to financial planning. This makes it difficult to judge if this approach is likely to be enough to close the gap between funding and spending and support the delivery of sustainable public services.

4. How is the MTFS currently used by parliamentary committees and how might it be further developed to support effective scrutiny and a strategic approach to financial planning?

In recent years, the Auditor General has highlighted a number of improvements that could be made to the MTFS to support effective scrutiny and improved financial planning:

- Include specific detail on how any projected spending gap might be closed.
- Integrate more information on workforce, as the largest single cost facing the public sector, including:
 - expected changes in spending due to pay growth by sector based on pay policies and pay deals
 - expected changes in workforce numbers by public body based on existing workforce plans
 - the anticipated effect on workforce costs of any spending efficiencies identified by public bodies.
- Publish a revised Medium-Term Financial Framework (MTFF) for health and social care that clearly aligns with the MTFS for the Scottish Government as a whole. This will help to determine what financial resources will be available and to give a clear understanding of potential financial scenarios for the largest area of spending within Scotland.
- Link the MTFS to outcomes and the NPF. In the Auditor General's response to the Committee's call for views on the NPF in 2024, he highlighted that it should also be clearer how medium- and long-term plans work towards outcomes, flow through into the Scottish Government's medium-term financial strategy, and how these are then reflected in annual budgets. This could include setting out what outcomes spending is contributing to over the medium term. The Outcome Delivery Plan approach, taken by UK Government departments in 2021/22, could potentially be a good basis for what this could look like.

The Scottish Government has committed to including sensitivity analysis in the 2025 MTFS, planned for publication 29 May 2025, and updating this following the UK Government Spending Review. This would be a positive development. The Budget Process Review Group report recommended that the Scottish Government set out in its budget documents how changes to estimates or policy impact on the high level figures previously set out in the MTFS. This would be a step towards meeting this recommendation.

5. What key areas should the Fiscal Sustainability Delivery Plan include to ensure it supports fiscal transparency and “stable ground” for longer-term financial planning?

To support fiscal transparency, the Fiscal Sustainability Delivery Plan (FSDP) should be clear about the scale of the risks to the affordability of public services and options for how the Scottish Government can manage them.

The FSDP should be clearly aligned with other key documents, including the Vision for PSR and the MTFS planned for this Spring. Once the UK Spending Review is published, it would be appropriate to identify how this changes any of the key actions in the FSDP, and it should be clear from the 2026-27 Budget how spending decisions support the implementation of the FSDP.

The Auditor General’s expectation is that, as a delivery plan, the FSDP will include actions that are detailed, proportionate, and timely. It should be clear what each action will contribute towards fiscal sustainability, where the responsibility for achieving this action will sit, and the timelines for achieving that action, including any milestones. If the actions will incur any costs, these should be clearly set out, and any risks to the delivery plan should be considered alongside potential mitigation strategies.

In addition, as part of the FSDP, the Scottish Government should consider the impact of the decisions they make on performance, different groups on society, and the implications of any changes for human rights.

6. How should parliamentary scrutiny of this Plan, a new aspect of the budget process, operate?

The Scottish Parliament’s ability to scrutinise the FSDP will be dependent on the information and the level of detail provided, particularly in relation to the areas identified in the response to question 5 above. A detailed plan will help identify opportunities for scrutiny, including emerging elements of good practice and the ability to learn from these and share lessons more widely.

It is unclear if the Scottish Government intends to publish an updated FSDP each year alongside the MTFS. However, we would expect to see an update on progress towards the FSDP published at least annually.

We understand from the Scottish Government’s evidence at the Public Audit Committee on 5 March 2024 that the FSDP will focus on public spending, including:

- Sustainability and reform of health and social care
- The nature of investment in social security
- Areas of wider public service reform, including prevention
- Clarity on assumptions on workforce and pay.

Following an approach to scrutiny in line with the approach set out in the Budget Process Review Group final report in relation to the MTFS would be appropriate. This would mean that the Finance and Public Administration Committee could focus

on the overall sustainability of the Scottish budget, including potentially the overall approach to reform and workforce. The subject committees may be well placed to focus on the high level spending information set out in the FDSP.

7. Learning from the practice of this parliamentary session, how should the Scottish Government approach future spending reviews?

The Resource Spending Review (RSR) published in 2022 was the first spending review since 2011, and it was a helpful step forward in including some multi-year spending allocations, and initial proposals for how pressures on the budget would be met. The RSR initiated some key components of current work on efficiencies, including the Single Scottish Estate and efforts towards shared services. Future spending reviews should integrate the impact of plans for Public Service Reform on spending plans over the spending review period.

The RSR also aimed to set out an overarching financial framework focusing on four key Scottish Government priorities. Future spending reviews should include clear links between spending plans and Government priorities, and identify which outcomes spending will support over the period. The National Audit Office has recently recommended that following UK Government spending reviews, the UK Government should publish a summary of spending choices with sufficient data allowing an understanding of allocations by department, priority outcome and strategic programme. <https://www.nao.org.uk/wp-content/uploads/2024/10/lessons-learned-a-planning-and-spending-framework.pdf>.

High inflation led to a period of significant volatility in the UK public finances following the publication of the RSR. This meant that the underlying assumptions and funding forecasts included in the RSR were subject to significant change. For example, the budget announced at the end of 2022 was £1.7 billion higher than the RSR had envisaged six months earlier.

Updating the Spending Review on a regular basis would help ensure the spending projections are more up to date. For example, the UK Government has committed to setting resource budgets for three years and capital budgets for five years, with reviews every two years. This approach intends to enable better financial planning and help achieve value for money. A more regular timetable of UK Government spending reviews, which inform funding assumptions for the Scottish Budget, facilitate the development of more regular and robust medium-term spending plans by the Scottish Government.

In the 'Fiscal sustainability and reform in Scotland' audit, the Auditor General commented that the Scottish Government does not know where it can flex its budget easily to accommodate short-term fluctuations or longer-term commitments. A better understanding of its cost base would help develop its Spending Reviews, and make these as robust as possible.

8. To what extent has the full year budget process addressed this weakness? Please set out the reasons for your response and any suggestions on how any remaining weaknesses could be better addressed.

The full year budget process relies on a robust MTFS to support parliamentary pre-budget scrutiny. This is particularly important in recent years, where both the UK Autumn and Spring Statements have been significant fiscal events, with implications for the Scottish Government's funding envelope, spending and forecasts.

In the absence of this, or in a context when the figures included no longer reflect the current fiscal environment, the focus on the process is the scrutiny of the draft budget and Budget Bill. This puts pressure on the ability of the Parliament to scrutinise the budget over the course of three month budget process.

9. How effective is current public engagement in the budget process and are there any ways in which this can be improved?

'Scotland's Open Budget Survey 2023' by the Scottish Human Rights Commission (SHRC) compares the openness of Scotland's budgetary processes with those of over 100 countries. The research shows that the Scottish Government has made some progress in making the budget process more transparent over the last four years but is still failing to reach standards considered adequate by international best practice and that greater budget transparency is needed to realise human rights.

The SHRC sets out recommendations for how transparency could be improved. The sort of improvements SHRC propose include:

- Produce and publish more information in advance of the budget and on actual spending against budget in-year.
- Publish a citizen's version of each key document at the same time as the main document.
- Produce an improved Budget publication timeline and present this on a single web landing page where all budget documentation can be accessed and downloaded.
- Make budget publications in an accessible, simplified format and in different languages, with the participation of existing civil society groups.
- Within budget documentation provide active links to other relevant budget documentation.

10. What adjustments do you consider are required to enhance the overall effectiveness of the budget process?

The answers above highlight the need for improved transparency to enhance the overall effectiveness of the budget process. The Auditor General's recent response to the Equalities, Human Rights and Civil Justice Committee's call for views on the 2025/26 budget also highlighted issues in relation to the approach to equalities and human rights in the budget process. This included questions in relation to transparency, the approach to cross-cutting equalities issues, and the extent to which equalities considerations inform decisions across portfolio areas. For more information, please see <https://www.parliament.scot/>

</media/files/committees/equalities-human-rights-and-civil-justice-committee/correspondence/2025/budget-scrutiny-2025-26-12-february-2025.pdf>.

11. Are any changes needed to the information, guidance and support provided to parliamentary committees to better support effective budget scrutiny?

Audit Scotland, the Auditor General and the Accounts Commission are committed to supporting parliamentary scrutiny. Our audit outputs can provide useful evidence for committees, and audit teams can engage with subject committees, providing formal or informal evidence as required. For more information, please refer to our work programme.