

Finance and Public Administration Committee

2nd Meeting, 2021 (Session 6), Tuesday 31
August 2021

Evidence session with the Cabinet Secretary for Finance and the Economy

Purpose

1. This paper provides background information for the Committee's evidence session with the Cabinet Secretary for Finance and the Economy, Kate Forbes MSP, who will appear in person and be supported by Douglas McLaren, Budget, Pay and Pensions, Scottish Government. The session follows evidence-taking from the Scottish Fiscal Commission on recently published forecast and evaluation data as well as the HMRC Scottish income tax outturn.

Focus of evidence session

2. The Committee's first evidence session with the Cabinet Secretary is intended to cover a wide range of matters including, but not limited to—
 - the [Scottish Fiscal Commission's Economic and Fiscal Forecasts](#) , this year published on 26 August, but which are usually published with the Scottish Government's Medium-Term Financial Strategy;
 - the [Scottish Fiscal Commission's Forecast Evaluation Report](#) , the first part of which on the economy, fully devolved taxes and social security was published on 15 July 2021, and the second part on income tax and Non-Domestic Rates was published on 26 August;
 - [HMRC Scottish income tax outturn data](#) published on 22 July 2021;
 - expected timings for key budget documents, including the planned resource spending review, the Scottish Budget 2022-21, and the Medium-Term Financial Strategy;
 - the Fiscal Framework Outturn Report anticipated in October 2021;
 - an update on progress with the review of the Fiscal Framework;
 - the impact of Covid-19 on public finances ahead of the Committee's planned pre-budget scrutiny.
3. This paper provides further background on the issues referred to in the four final bullet points listed above. SPICe has produced a briefing paper (Paper 2) for the Committee summarising some key developments and publications from the summer recess period including those documents highlighted in the first

three bullet points above. Members may wish to explore some of these issues during evidence with the Scottish Fiscal Commission and with the Cabinet Secretary.

Timing of the Budget Process 2022-23

Background

4. A significant and immediate issue for both the Scottish Government and the Scottish Parliament is the process and timetable for presenting and scrutinising the Scottish Government's spending plans for 2022-23 and beyond. As members are aware, the budget process is now a full-year approach, which aims to enable committees to build on evidence gathered throughout the year. The five documents that this Committee would ordinarily expect to consider as part of its budget scrutiny are: the Medium-Term Financial Strategy, the SFC and HMRC documents listed above, and the Fiscal Framework Outturn Report. As has been seen over the last two financial years, the timing of budget scrutiny can be affected by external factors, such as UK budget timings, significant electoral events, and the Covid-19 pandemic.

Possible timing of the Scottish Budget

5. At this time there is no indication when the Chancellor will announce the UK spending review which sets out indicative funding figures for Scotland.
6. The [Written Agreement](#) between the Scottish Government and the Committee states that there is a presumption the Scottish Government will carry out a Spending Review, linked to the equivalent UK Spending Review. The Cabinet Secretary, in her [letter to the Committee of 8 July](#), confirmed that the Scottish Government had started work to support a potential multi-year resource spending review concluding in the autumn. She stated that: "I appreciate the Scottish Government's previous agreement [in the written agreement with the Committee] to set out a framework when proceeding with a Spending Review and, subject to the Committee's views, I would be happy to expand on this in the coming weeks". She went on to confirm that she has no current plans to carry out another capital spending review process following its publication earlier in the year, "but will continue to refine our capital spending plans as normal as part of the budget cycle reflecting the evolving funding position and our subsequent commitments".
7. The Written Agreement also indicates that both the Scottish Budget document and the Budget Bill (expected a week after the Scottish Budget document) would normally be published prior to Christmas recess. It further states that "as soon as the timing of the UK Autumn Budget is known, the Scottish Government will consult the Committee on the timing of the Budget Bill and the Scottish Budget". Publication has however been later in the last two years, with the Scottish Budget document 2020-21 published on 6 February 2020 and the 2021-22 document on 28 January 2021.

8. Assuming the draft Budget documents 2022-23 are published before Christmas recess 2021, the Parliament would be able to revert to the standard scrutiny pattern. This would suggest that pre-Budget scrutiny by Committees should be completed by the end of October 2021, with reports being published at the start of November 2021. The Finance and Public Administration Committee has scheduled evidence sessions on pre-budget scrutiny on 7 and 14 September followed by an anticipated session with the Cabinet Secretary in early October. It would expect to publish its report in early November 2021 and then scrutinise the Budget Bill at Stages 1 and 2 (anticipated to be in January and February 2022).

Medium-Term Financial Strategy

9. The [Finance and Constitution Committee's legacy expert panel](#) recommended that a review of the content of the MTFS takes place ahead of the first MTFS of the session being published and that it be carried out jointly by the Committee and Scottish Government and include consultation with the SFC. The Written Agreement notes that both bodies should keep the content of the MTFS under review as it develops over time.
10. The MTFS is usually published in May but was delayed this year due to the parliamentary elections. A key consideration for the timing of the next MTFS is whether the UK Government publishes a multi-annual spending review this year, which would have an impact on when indicative figures for the block grant would be available for the medium-term.
11. The Committee may wish to discuss the timing of the publication of the MTFS with the Cabinet Secretary and whether one will be published this year in advance of the Scottish Budget.

Fiscal Framework Outturn Report and Review of the Fiscal Framework

12. The Fiscal Framework underpins the powers over tax and welfare that are devolved to Scotland through the Scotland Act 2016.

Fiscal Framework Outturn Report

13. The Fiscal Framework Outturn Report includes the income tax outturn figures for 2019-20 and the confirmed reconciliation which will apply to the 2022-23 Budget. The Committee has previously agreed to take evidence from the Cabinet Secretary on the Fiscal Framework Outturn Report (FFOR) once published. The Committee may wish to discuss the timing of the publication date for the FFOR.

Review of the Fiscal Framework

14. The Fiscal Framework states that it will be reviewed following the Scottish Parliament elections in 2021. The review is to be informed by an independent report with recommendations presented to both Governments by the end of 2021. To inform the scope and terms of reference of the body tasked with delivering the independent report, the Session 5 Finance and Constitution Committee, Social Security Committee and Cabinet Secretary for Finance produced a joint report for the Chief Secretary to the Treasury which identifies a number of issues arising from the operation of the Fiscal Framework to date that, in their collective view, should be considered by the body tasked with delivering the independent report. A response from the Chief Secretary to the Treasury has yet to be received. At this time, the Scottish and UK governments have not been able to agree on a remit and scope for the report, and nobody has been appointed to carry out the report. Given that, it is possible that the timescale of an independent report being produced by the end of the year might slip. The Cabinet Secretary for Finance and the Economy may be able to provide the Committee with an update in relation to the Review.
15. The Legacy Expert Panel report noted that this Committee should continue to scrutinise the scope, conduct and outcomes of the Fiscal Framework review and that this should remain a significant focus throughout Session 6. The Committee agreed, as part of its pre-budget 2022/21 scrutiny, to seek views on how the Fiscal Framework has operated in response to Covid-19. The Panel also recommended that the Committee review the operation of the budget process following the review of the Fiscal Framework and suggested the later part of the session for this work.

Impact of the Health Pandemic

16. Reacting to the current pandemic has been a priority across all sectors and has had adverse impacts at national, local and personal levels. In terms of the Budget commitments and the Programme for Government, many previously planned aspects have been paused.
17. The Legacy Expert Panel recommended the publication of a 2021-22 Summer Budget Revision. It recommended that this should be done as early as possible after the election to allow the successor Committee an early opportunity to scrutinise the continuing impact of COVID-19 on the public finances. In a [letter to this Committee](#), dated 16 June 2021, the Scottish Government noted that there was not sufficient time for such a budget revision to progress through the relevant Parliamentary procedures before the summer recess.
18. However, in the same letter, the Scottish Government has provided some additional information on planned use of COVID-19 allocations.
19. The Committee has agreed to focus its pre-budget scrutiny on *Scotland's public finances in 2022/23 and the impact of Covid-19*, including its effect on the performance of the Fiscal Framework. This followed a Legacy Expert Panel

recommendation that the Committee should take an early opportunity to scrutinise the continuing impact of the Covid-19 pandemic on the public finances.

20. While there will be an opportunity for the Committee to take evidence from the Cabinet Secretary on its pre-budget scrutiny (anticipated to be early October 2021), this does not preclude Members asking any questions on this immediate and significant issue at the 31 August session.

**Clerks to the Finance and Public Administration Committee
August 2021**

Recent Correspondence from the Cabinet Secretary for Finance and the Economy and from the Minister for Public Finance, Planning and Community Wealth.

Letter from the Cabinet Secretary for Finance and Economy, 8 July 2021
[Scottish Government Resource Spending Review 2021 | Scottish Parliament Website](#)

Letter from Minister for Public Finance, Planning and Community Wealth, 22 July 2021
[Provisional statistics on 2019 20 outturn for Scottish Income Tax | Scottish Parliament Website](#)

Letter from the Cabinet Secretary for Finance and the Economy to the Committee, 16 June 2021
[Summer Budget Revision, 2021-22 Funding Changes, 2021-22 Additional Allocations and Fiscal Framework Review, Scottish Parliament website](#)