

Budget Process 2024-25: Guidance for Committees

Purpose

1. This guidance aims to support parliamentary committees in relation to their scrutiny of the Scottish Government's Budget 2024-25. It should be read in conjunction with this [SPICe briefing on the budget process](#), which provides further background on the process itself.

Process

2. The budget process, as recommended by [the Budget Process Review Group \(BPRG\) in its 2017 report](#), is centred around four core objectives:

- to have 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.

3. The process takes a strategic year-round approach to budget scrutiny, allowing parliamentary committees to build up an evidence base over time on the impact of spending in their portfolio areas. This approach enables committees to spread their work on budget scrutiny more evenly throughout the year, as part of their existing work programmes, and should also ensure more meaningful and informed scrutiny. Crucially, this process enables committees to have real influence on the spending proposals in the Scottish Budget, with committees reporting their views on what it should contain (including priorities and reprioritisation), as it's being developed by the Scottish Government, rather than once it's been published.

4. Committees are asked to report their findings to their respective Ministers by letter or report, at least six weeks before the Scottish Government's Budget is published. Assuming an early to mid-December publication date for the Scottish Budget, pre-budget letters and reports would be expected around the end of October/start of November 2023. There is no requirement for pre-budget letters/reports to be copied to the Finance and Public Administration (FPA) Committee.

5. The Scottish Government will then include within its Budget document (usually published in December) a summary of how parliamentary committees have influenced the formulation of the Budget. Ministers will provide a more detailed response to individual committees within five sitting days of the Budget being published. Each committee thereafter has an opportunity to invite oral evidence from their respective Ministers on that detailed response received.

6. The Scottish Parliament's Standing Orders (Rule 5.8) requires the Parliamentary Bureau to schedule time for committee pre-budget reports to be debated. This debate takes place prior to the Stage 1 debate on the Budget Bill. Clerks and SPICe will consider opportunities for a more structured pre-budget debate which flows around themes rather than a collection of disparate speeches.

Committees are encouraged to take a view on whether they are content with how the Scottish Government has responded to their pre-budget report, based on the Budget document, the formal Ministerial response, and any oral evidence with the relevant Cabinet Secretary/Minister. If any Committee is not happy with how the Scottish Government has responded, it has the option of proposing alternative revenue and spending proposals by lodging a reasoned amendment to the Scottish Government motion on the general principles of the Bill (Stage 1).

7. Other than the FPA Committee, which scrutinises the Bill at Stage 2, there is no formal role for other committees beyond Stage 1.

Possible approaches

8. Committees are of course free to adopt approaches to pre-budget scrutiny that suit their work programmes and working practices, taking account of the BPRG report, this guidance, and other background documents, including SPICe briefings. The BPRG report recommends that committees, in their final reports/letters, include views on the delivery and funding of existing policy priorities, any proposed changes and how these should be funded, and the impact of spending on the delivery of outcomes. More information on how committees might approach scrutiny of the national outcomes as part of pre-budget scrutiny is provided in the section below on the National Performance Framework.

The FPA Committee recognises that it is not possible for committees to undertake detailed budget scrutiny in every area within their remits. In fact, we want to ensure that committees have maximum flexibility in their approach to budget scrutiny. Committees may for example prefer to agree a particular focus each year, either on a specific policy area, or indeed budget areas that have seen significant changes. In addition to having such a detailed focus, it can also be helpful for committees to keep an eye on the bigger picture and trends in their portfolios.

9. Last year, committees were able to use as the backdrop to their pre-budget scrutiny, the Scottish Government's [Investing in Scotland's Future: Resource Spending Review](#), which set out high-level parameters for resource spend within Scottish Budgets up to 2026-27, and its Capital Spending Review Update up to 2025-26. These documents set out the Scottish Government's chosen spending priorities for the years ahead.

10. The FPA Committee noted in its Budget 2023-24 Report that the RSR was by December 2022 largely out of date, due to the economic volatility and in particular inflationary pressures. It also had concerns regarding the lack of long-term financial planning, with the Scottish Government’s primary focus on immediate challenges. The Scottish Government rejected the Committee’s calls for the RSR to be updated and pointed to the May 2023 Medium-Term Financial Strategy (MTFS) as providing the medium-term to long-term spending outlook. **The MTFS, published on 25 May 2023, notes that multi-year spending envelopes for both resource and capital will be published alongside the Scottish Budget 2024-25, while the Capital Spending Review and Infrastructure Investment Plan period will also be extended by a year, taking these to 2026-27.**

This parliamentary session, the FPA Committee has taken the approach of asking witnesses, when they propose additional spend in certain areas, to also say from which budget lines or tax increases these funds should come from. Other committees may be interested in taking a similar approach, particularly given the pressures on Scotland’s finances, as highlighted in the Scottish Fiscal Commission’s latest Economic and Fiscal Forecasts and the Scottish Government’s MTFS, which states that “there will be difficult choices about reprioritisation [of spend] to make”.

Supporting documents

11. This section of the guidance goes on to further explore how supporting documents can assist committees in their budget scrutiny. Audit Scotland’s performance reports, public body reports and Scottish Government strategies and plans relevant to your committees’ remits may also be of interest, should committees wish to build up a fuller picture of how areas of their portfolios are performing against objectives. In addition, [the Scottish Government’s Equality, Opportunity, Community Prospectus](#), published in April 2023, sets out the Missions and key priorities it wishes to achieve within certain timeframes, mostly by the end of this parliamentary session. One option for pre-budget scrutiny would be for committees to establish the amounts and adequacy of funds allocated to the delivery of these Missions and key priorities.

Scottish Fiscal Commission’s first Fiscal Sustainability Report

12. The [Scottish Fiscal Commission’s first Fiscal Sustainability Report](#) published in March 2023 can provide committees with broader context on the long-term fiscal position for their budget scrutiny. Looking ahead 50 years, this Report focuses on demographic trends and highlights that the forecast changes to population structure will “translate into different levels of demand for public services, with higher pressure on health services and reduced demand for services used by younger people, such as education”. Total spending on devolved public services (by both the Scottish Government and local authorities) is forecast to be £54 billion in 2027-28 rising to £120 billion by 2072-73. The SFC notes that, “under current Scottish and UK fiscal policies, if public services in Scotland are to continue to be delivered as they are

today, Scottish Government spending over the next 50 years will exceed the estimated funding available by an average of 1.7 per cent each year, ... equivalent to £1.5 billion in today's prices".

13. Drawing on the themes arising from the SFC's Fiscal Sustainability Report, the FPA Committee has agreed to focus its pre-budget scrutiny on the sustainability of Scotland's public finances, including how the Scottish Government is balancing the need for both short and longer-term financial planning. The evidence gathered as part of the Committee's inquiry into the Scottish Government's public service reform programme will also feed into its pre-budget scrutiny work.

Medium-Term Financial Strategy and Scottish Fiscal Commission Forecasts

14. The Scottish Government's Medium-Term Financial Strategy (MTFS) sets out the economic and fiscal outlook for the next five years and provides the context for the Scottish Government's spending decisions. The MTFS is informed by the SFC's Economic and Fiscal Forecasts. These documents are published together, usually in May each year, and can provide a hook for committees' pre-budget scrutiny.

15. [The Scottish Government's sixth MTFS](#) was published on 25 May 2022, alongside [the SFC's Economic and Fiscal Forecasts – May 2023](#). The SFC's Forecasts note a slightly improved position on its December 2022 Forecasts, adding however that "though a technical recession has been avoided, economic activity remains muted, with falling living standards as the rising cost of living continues to put pressure on households". It goes on to state that—

"The overall outlook for resource funding is for modest increases in real terms throughout the five-year forecast horizon. However, the Scottish Government's MTFS provides projections for resource spending for 2024-25 to 2027-28 which show spending growing more quickly than funding in the central scenario, presenting a challenge for the Government in setting the Budget in future years. For capital funding the outlook is more constrained, and it is projected to fall in both nominal and real terms over the next five years".

16. In her Foreword to the MTFS, the Deputy First Minister stated that—

"... my number one priority is to ensure the Scottish finances remain on a sustainable trajectory so that we can deliver first class public services for our communities, improve equality by reducing poverty and seize the opportunities of an economy that is fair, green and growing".

17. The MTFS states that "tough and decisive action must therefore be taken to ensure the sustainability of public finances and that future budgets can be balanced". It notes from modelling that "our resource spending requirements could exceed our central funding projections by 2% (£1 billion) in 2024-25, rising to 4% (£1.9 billion) in 2027-28".

18. While the Scottish Government does not include in the MTFs the specific actions it will take to address these financial pressures, it does set out the following three pillars which will underpin its strategic approach to managing the public finances—

- **Focusing spending decisions on achieving the Scottish Government’s three critical Missions².** Alongside the 2024-25 Budget, it will refresh multi-year spending envelopes for resource and capital and extend the Capital Spending Review and Infrastructure Investment Plan period by one year, taking these plans up to 2026-27.
- **Supporting sustainable, inclusive economic growth and the generation of tax revenues.** The Scottish Government commits, ahead of the Budget 2024-25, to explore how to seize opportunities in areas where Scotland has a competitive advantage, such as the Green economy, and supporting entrepreneurs, start-ups and scale-ups; and raising productivity levels.
- **Maintaining and developing the Scottish Government’s strategic approach to tax.** It is establishing an external tax stakeholder group this summer to look at how it will engage with the public and stakeholders on the future direction of tax policy, with the outcomes feeding into the Budget 2024-25 and development of a longer-term tax strategy for publication in May 2024

19. Reform of public services and their delivery was a key element of the Scottish Government’s May 2022 RSR “to improve outcomes and achieve sustainable public finances”. The Scottish Government has in the MTFs reviewed these commitments and prioritised actions “which remain both relevant and likely to have a meaningful positive impact on financial sustainability”. The MTFs places greater emphasis on pay sustainability as a key aspect of reform, noting that it is a “significant component of our spending and the [2023-24 Pay Strategy](#) reiterates that pay and workforce must more than ever be linked to both reform and to fiscal sustainability”. The Pay Strategy requires public bodies to satisfy themselves of the affordability and sustainability of the pay awards within existing budget allocations”. Public bodies are also, the MTFs argues, best placed to assess both the opportunities and action that must be taken in relation to reform to ensure fiscal sustainability, with budgetary allocations providing parameters for this. The MTFs also sets out a list of major reform programmes underway, such as The Promise, National Care Service, and Justice Vision. There appears however to be little in the way of modelling of risks around the costs of some of these major reform programmes.

20. Blogs highlighting key issues from, and commenting on the MTFs from [SPICe](#), the [Fraser of Allander Institute](#), and the [Institute of Fiscal Studies](#), are also available for those interested in reading more. Blogs highlighting key issues from, and commenting on, the MTFs from [SPICe](#), the [Fraser of Allander Institute](#), and the [Institute of Fiscal Studies](#), are also available for those interested in further reading.

The MTFS and SFC Forecasts can be used by committees to set the context for their pre-budget scrutiny and assess the risks around spending in particular areas within their portfolios. Committees could also look to examine the assumptions made for these forecasts, and the degrees of built-in uncertainty.

How the public service reform agenda, pay sustainability aims, and relevant major reform programmes are being funded and any impact on public bodies, service delivery and spending on preventative measures within your committee's portfolio, may also be of interest given the financial pressures set out in the MTFS.

National Performance Framework: National Outcomes

21. According to the Scottish Government, the [National Performance Framework](#) (NPF), introduced in 2007, “describes our ambitions, providing a vision for national wellbeing across a range of economic, social and environmental factors”¹. It sets out the “strategic outcomes which collectively describe the kind of Scotland in which people would like to live and guides the decisions and actions of national and local government”. There are 11 national outcomes, which are measured for progress against 81 national indicators.

22. The BPRG recommended that the NPF “is used more widely by Parliament and its committees in evaluating the impact of previous budgets” and in particular that subject committees should revisit budget documents and assess the extent to which previous spending plans are delivering the national outcomes”. An inquiry into the NPF by the FPA Committee [reported in October 2022](#) that “the NPF is not currently seen to drive financial decisions nor as a mechanism by which organisations are held to account for spending effectively.”

23. SPICe regularly produces a snapshot of how Scotland is performing against national indicators, which committees can use to review progress ([latest version published on 6 March 2023](#)). Should committees identify national outcomes or indicators that are seeing little or no progress, or indeed a deterioration, they could examine budget areas that may impact on those outcomes. The previous budget document sets out which outcomes are associated with each portfolio, and [this chart in the SPICe Briefing on the 2023-24 budget mapped the changes in portfolio to the associated national outcomes](#).

24. This [SPICe briefing on the NPF and Budget Scrutiny](#) is intended to support committees to:

- use the NPF to help provide a focus to budget scrutiny,
- identify key budget questions relating to the different stages of the policy/spending process
- link these budget questions to the National Outcomes and indicators, and
- use the NPF to improve the depth and scope of their budget scrutiny.

25. It also provides some helpful case studies of where committees have used the national outcomes to support budget scrutiny, for example, the [Session 5 Equality and Human Rights Committee’s pre-Budget scrutiny report 2020-21 on “Valuing the Third Sector”](#), which used the NPF data extensively and is considered to be a good practice example.

26. The Community Empowerment (Scotland) Act 2015 requires the Scottish Government to undertake a statutory review of the national outcomes every five years. [The Scottish Government launched a consultation and separate call for views on the national outcomes](#) on 14 March 2023, which closed on 4 June 2023. The views gathered will inform a review document to be laid before Parliament setting out any proposed revisions to the national outcomes. It is anticipated that this document will be laid at the end of 2023/start of 2024 for committees’ scrutiny. While the FPA Committee expects to be designated as lead committee for this scrutiny, many other committees will also have a role in its scrutiny.

In advance of scrutiny of proposed revisions to the National Outcomes Committees may wish to consider, as part of their pre-budget scrutiny, the impact of spending on the delivery of national outcomes relevant to their remits.

Financial transparency

27. One of the BPRG’s core objectives for the budget process is to improve transparency. This aligns with the Scottish Government’s [Scotland’s Open Government Action Plan 2021-25](#)⁹ published on 25 March 2022, which aims to “promote Open Government values of openness, accountability, transparency and involving people”, across three policy areas it identifies as priorities, one of which is Financial Transparency¹.

28. As part of this initiative, the Scottish Government undertook a “discovery project” in Spring 2021 in recognition that “current presentation of fiscal information is not easily accessible or presented in a way that meets most users’ needs”. The result is the [Scottish Exchequer Fiscal Transparency Discovery Report](#), which sets out the findings of the discovery project and how the Scottish Government aims to “make the existing large amount of fiscal information more accessible, understandable, linked and open – rather than publishing more, new or different information”.

29. The Scottish Government last year published, alongside the budget document, spending by [Classification of Functions of Government \(COFOG\)](#), which is used to reflect spending in a consistent way by identifying spending under set definitions, for example Health, Education, Housing Economy, Environment. The Scottish Government last year published, alongside the budget document, spending by

¹ Climate Change and Health and Social Care are the two other Scottish Government Open Government priorities.

[Classification of Functions of Government \(COFOG\)](#), which is used to reflect spending in a consistent way by identifying spending under set definitions, for example Health, Education, Housing, Economy, and the Environment. This followed recommendations by the OECD and the SFC, with the latter noting that this would “provide a benchmark for comparisons of the Scottish Budget in future years.” This information also provides parliamentary committees with improved transparency in terms of budget information by area of government rather than by Ministerial portfolios which often change at the start of, and at times also during, a parliamentary session.

Committees may wish to build in questions to their budget scrutiny around the ability to track funding and spending, to hold the Scottish Government to account on its commitments around transparency. SPICe is also able to help support committees to start asking the Scottish Government questions about comparative COFOG information, as part of their budget scrutiny.

Climate change

30. Addressing the climate change crisis is one of the key priorities set out in the RSR and in the Scottish Government’s Equality, Opportunity and Community Prospectus published in April 2023.

31. Last session, the Scottish Government committed to working with the Parliament and stakeholders to review the current processes and outputs around Budget information as it relates to climate change, and a Budget Working Group was established to take this work forward. To inform this work, the Fraser of Allander Institute (FAI) also produced research and recommendations.

32. As a result, the Scottish Government included a dedicated climate narrative section in the 2023-24 budget document “to outline the relative impact of spend within the budget that supports progress towards statutory climate change commitments”. The Scottish Government has also committed to, “starting in the 2024-25 budget cycle, an enhanced taxonomy approach to identify and categorise all spending lines across the Scottish Budget with regards to their climate impact”.

[The Fraser of Allander has commented](#) on the Scottish Government’s planned actions in response to its research and the Review Group’s work, which may be of interest to committees who wish to examine this new climate change data. Committees could assess how helpful and transparent this new climate change information is for scrutiny purposes, and how it might be enhanced.

Equalities

33. The BPRG saw the link between equality and budgetary considerations as being key to the budget process, particularly in recognition of equal opportunities as

one of the founding principles of the Scottish Parliament. Each Scottish Budget is accompanied by an Equality and Fairer Scotland Statement.

34. As referred to above, the Scottish Government's Prospectus published in April 2023 has Equality as one of its three Missions—

“Equality: Tackling poverty and protecting people from harm. Only with the full economic and fiscal powers of an independent nation can we eradicate inequality and poverty. In the meantime, we will use our fixed budget and all the powers we have to reach our targets of substantially reducing child poverty. We will continue to tackle poverty in all its forms and improve the life chances of people across our country. We will protect people across Scotland as far as possible from the harm inflicted by UK Government policies and the ongoing cost of living crisis.”

35. The MTFS restates the commitments made in this Prospectus and refers to evidence that its tax and social security policies are reducing inequality and targeting support to those who need it most. There are also references to ensuring that its spending choices target health inequalities, given “Scotland continues to face significant population health challenges: stalling (and in some groups falling) healthy life expectancy, and widening levels of inequality, exacerbated by COVID-19”. Finally, the MTFS also repeats the aims set out in the Scottish Budget 2023-24 to achieve fiscally sustainable person-centred public services, which over time both improve outcomes and reduce inequalities of outcomes across communities in Scotland”.

Committees could explore in more detail the adequacy of the costs associated with delivering the Scottish Government's Equality Mission, and/or how the Scottish Government's policies within committees' specific portfolios might impact on particular groups of society, and where any spending changes might be made to tackle inequalities.

Ongoing support

There are numerous approaches that committees can take in relation to pre-budget scrutiny, some of which are set out above in the blue boxes as examples. As always, FPA Committee Clerks and SPICe colleagues are happy to work with committees in helping to shape approaches that best suit individual committee priorities.

The Financial Scrutiny Unit has recently undertaken research summarising the topics chosen for pre-budget scrutiny across committees. As might be expected, the overwhelming focus of pre-budget 2023-24 scrutiny was on the various impacts of the cost-of-living crisis and inflationary pressures. This year, the FSU is therefore taking on more of a general co-ordinating role, including sharing the chosen topics of pre-budget scrutiny amongst clerks

and SPICe colleagues, and publishing a summary of themes from Committee pre-budget reports.

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