

## National Assembly for Wales – Finance Committee

### Written submission by the Auditor General for Scotland on the Scottish budget process

#### Introduction

1. I welcome the opportunity to contribute to the Finance Committee's consideration of the legislative budget process.
2. I was a member of the Budget Process Review Group (BPRG), which carried out a fundamental review of the Scottish Parliament's budget process. A revised process based on the recommendations of the BPRG was introduced last year, for the 2019/20 budget. This submission reflects my experience as a member of the BPRG. I look forward to discussing these issues further with the Committee on 13 June 2019.

#### Background

##### Previous budget process

3. The Scottish Parliament has always had a legislative budget process. The UK Government established the Financial Issues Advisory Group (FIAG) in 1998 to develop proposals for the new Scottish Parliament's budgetary process. FIAG outlined a set of principles for the process (Appendix 1). It recommended a statutory annual budget process that was designed to give the Parliament's committees the opportunity to comment on Scottish Government spending plans at several points during the year. It proposed an annual three-stage approach to scrutinising and approving the Government's spending proposals:
  - April to June - discussion of strategic priorities for the following financial year
  - September to December - consideration of the Scottish Government's draft budget and opportunity to suggest alternative tax and spending proposals
  - January to February - scrutiny of the Budget Bill.

##### Rationale for change

4. The process has continually evolved since it was introduced in 1999, but more fundamental changes were needed to accommodate the devolution of tax and spending powers through the 2012 and 2016 Scotland Acts. Before these powers were devolved, budget scrutiny focused on Scottish Government plans to spend the block grant allocation from the UK Government. The new financial powers saw a shift from a spending parliament to one that needs to balance spending and revenue, while managing increased complexity, volatility and uncertainty. This placed increased emphasis on the importance of parliamentary committee's budget scrutiny.
5. The changing landscape for the public finances meant that there was a need to transform the budget process. This also provided an opportunity to address some weaknesses in the process. The Scottish Budget has always been published after the UK Budget and spending reviews, so the timetable for budget scrutiny depends on the timing of UK fiscal events. On seven occasions since devolution, the Scottish Draft Budget was published later than September. This reduced the time available for budget scrutiny and was a cause of concern for parliamentary committees.

6. The discussion of strategic priorities before the Draft Budget was published never worked as intended by FIAG and became largely overlooked. This limited the level of parliamentary influence on the formulation of the budget. In practice, scrutiny did not begin until the Scottish Government's detailed spending proposals were published in the Draft Budget. At this stage, scrutiny tended to focus on budgetary changes in a single year. There was little emphasis on evaluating the impact of previous budgets or looking ahead to future budgets.
7. The impact of new financial powers and the operation of the fiscal framework on the Scottish budget, along with the scope to improve budget scrutiny, meant that both the Scottish Parliament and Scottish Government supported revisions to the budget process. They encouraged a transformative approach to reviewing the whole process rather than updating or amending existing steps in the process.

## **Budget Process Review Group**

### **Establishing the group**

8. In its legacy paper at the end of the previous session of the Parliament, the Finance Committee recommended that "Scottish Parliament and Scottish Government officials work together to review the budget process in the first instance with a view to bringing forward proposals for any changes for consideration by our successor and Ministers. This should include addressing the issue of tax changes and the balance between scrutiny of revenue and expenditure."<sup>1</sup>
9. In September 2016, the new Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution agreed to establish a group with the following remit:

"To carry out a fundamental review of the Scottish Parliament's budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016. To bring forward proposals for a revised budget process which are consistent as far as possible with the principles of the Financial Issues Advisory Group for consideration by the Finance Committee and the Cabinet Secretary for Finance and the Constitution."
10. The clerks of the Finance and Constitution Committee and Scottish Government officials jointly led the establishment of the BPRG. They identified potential members and proposed the scope and timing of the group's work. The joint lead taken by the Parliament and Government in calling for a review of the existing budget process and investing time and resources in its work was essential to the success of the BPRG and the adoption of its recommendations.
11. Membership of the BPRG included four officials from the Scottish Parliament, four officials from finance directorates in the Scottish Government and eight expert advisors. This provided a good balance between officials and advisors and ensured a range of views around the table from people with relevant knowledge and experience. Once the BPRG was established, the expert advisors were able to influence and shape the work of the group.

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<sup>1</sup> Finance Committee legacy paper, March 2016  
[https://www.parliament.scot/S4\\_FinanceCommittee/Reports/FIS042016R06.pdf](https://www.parliament.scot/S4_FinanceCommittee/Reports/FIS042016R06.pdf)

## Work of the group

12. The scope of the review was to:

- assess the likely impact of the new financial powers on the effectiveness of the existing budget process
- devise a revised budget process that addresses the increased level of financial responsibility within the context of the FIAG principles.

13. The first meeting of the BPRG, at the end of September 2016, was introduced by the Cabinet Secretary for Finance and the Constitution, the Convenor of the Finance Committee and the Scottish Government's Director General Finance. They highlighted their commitment to transforming the budget process and support for the BPRG. This set a constructive tone, empowering the group to explore options and make independent recommendations.

14. At its first meeting, the BPRG agreed to the scope and timings of the review as proposed by the Scottish Parliament and Scottish Government. Steered by the expert advisors, the group agreed a range of principles that would guide its work and the issues that it wanted to consider at future meetings. The group agreed its initial work programme, including specific information it required to help inform the review and people it wanted to invite to give evidence.

15. The BPRG met 11 times between September 2016 and June 2017. During this time, it took oral evidence from 20 people including academics and representatives from organisations such as the Organisation for Economic Cooperation and Development (OECD) and the Institute of Fiscal Studies. The group also held a workshop on an outcomes-based approach to budget scrutiny and commissioned research on international best practice in budget scrutiny.

16. To widen the evidence base further, the group published an interim report for consultation.<sup>2</sup> This provided an opportunity for wider civic engagement in the review. The group received 26 written submissions, including ones from other Scottish Parliament committees, public bodies, councils and representative organisations. Taking an evidence-led approach to the review, based on contributions from a wide range of stakeholders, helped the group to agree a set of recommendations that were ambitious but achievable.

17. Although the group was encouraged to take a transformative approach to reviewing the whole budget process, it was important to recognise what was already working well. Some of the BPRG's recommendations were based on retaining elements of the existing process and building on what some committees were already doing around budget scrutiny. The group was also clear that it would take time to implement any changes, given the complexity of the issues and the cultural change required.

18. The BPRG reported its findings in June 2017.<sup>3</sup> This included 59 recommendations, designed to transform the Scottish budget process. I and another member of the BPRG contributed to the Finance Committee's evidence session on the report in September

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<sup>2</sup> Budget Process Review Group interim report, March 2017

[https://www.parliament.scot/S5\\_Finance/Reports/2017.03.10\\_BPRG\\_Interim\\_Report\\_\(1\).pdf](https://www.parliament.scot/S5_Finance/Reports/2017.03.10_BPRG_Interim_Report_(1).pdf)

<sup>3</sup> Budget Process Review Group final report, June 2017

[http://www.parliament.scot/S5\\_Finance/Reports/BPRG\\_-\\_Final\\_Report\\_30.06.17.pdf](http://www.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf)

2017.<sup>4</sup> The Convenor highlighted the role of the external advisors in developing the group's recommendations and noted that the BPRG provided a positive example of parliament, government and civic society working together to find a successful way forward.

## Revised Scottish budget process

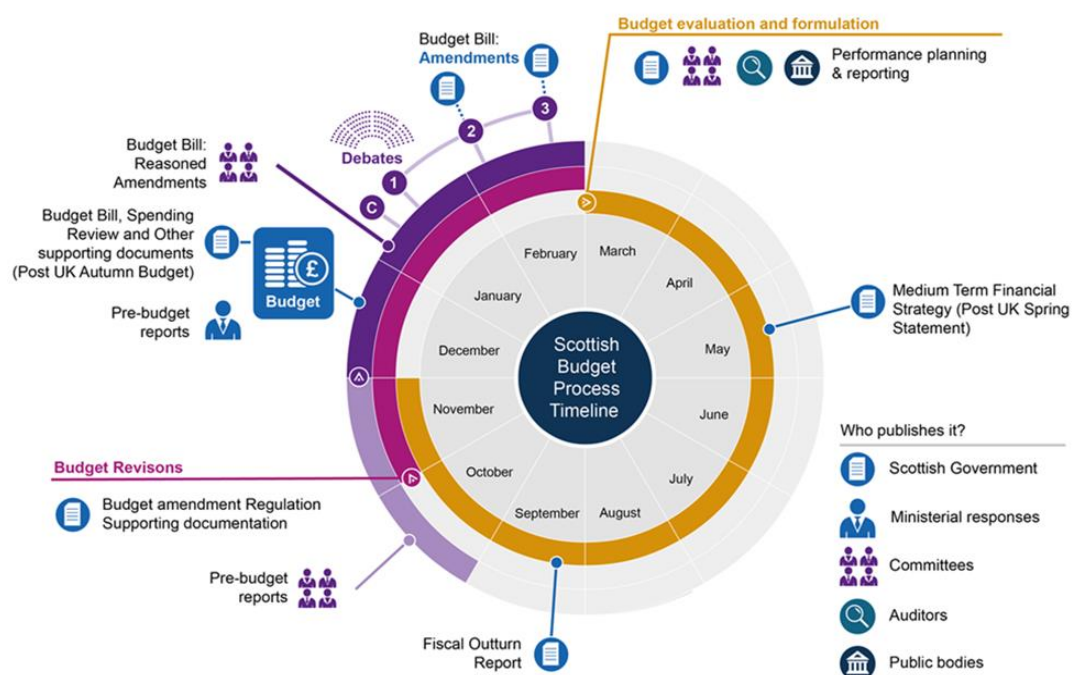
19. The Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution welcomed the recommendations of the BPRG and agreed to implement them in full. In May 2018, the Scottish Parliament backed changes to the budget process, and this was set out in a revised written agreement between the Scottish Government and the Finance and Constitution Committee.<sup>5</sup> The revised process was introduced for the 2019/20 budget.
20. At the heart of the new budget process is a framework that supports a more strategic approach to scrutiny with the following features:
  - 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 - an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends.
  - Output/outcome focused - an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes.
  - Fiscal responsibility - a longer-term outlook with a focus on prioritisation and addressing fiscal constraints and increasing demand for public services.
  - Inter-dependent – more of a focus on the inter-dependent nature of many of the policies which the budget is seeking to deliver.
21. The main elements of the new budget cycle are shown in Exhibit 1. A key part of the new process is the extended budget evaluation and formulation stage from March to November. This involves parliamentary committees looking back to explore what is working and looking forward to identify the issues and challenges, and considering what this should mean for future budgets. This is intended to allow committees to influence the content of budget proposals up front, both through discussion at the committee and by setting out their views in a pre-budget report. The pre-budget reports, which are to be prepared at least six weeks before publication of the Scottish Budget, should set out individual committees' views on the delivery and funding of existing policy priorities, any proposed changes and how these should be funded. This then plays into the formal parliamentary process around the budget itself.
22. The Scottish Budget document should include a summary of how committees' pre-budget reports have influenced the budget. Ministers are required to provide a more detailed written response to each committee within five sitting days of publication of the budget. They may also be invited to provide oral evidence to their respective committees.

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<sup>4</sup> Finance and Constitution Committee official report, September 2017 (column 27 to 46)  
<http://www.parliament.scot/parliamentarybusiness/report.aspx?r=11105&mode=pdf>

<sup>5</sup> Budget process agreement between the Scottish Government and Finance and Constitution Committee  
[https://www.parliament.scot/S5\\_Finance/General%20Documents/20180517WA\\_with\\_SG.pdf](https://www.parliament.scot/S5_Finance/General%20Documents/20180517WA_with_SG.pdf)

## Exhibit 1: Revised Scottish budget process



Source: Scottish Parliament Information Centre

### Legislative process

23. The BPRG considered the timing of the publication of the Scottish Budget and the implications for the time available for scrutiny. It concluded that publishing the Scottish Budget prior to the UK Budget would be counter-productive due to the increased levels of uncertainty introduced by the fiscal framework. It therefore recommended that more time is built into the budget cycle for ongoing parliamentary scrutiny, and the Scottish Budget will continue to be published after the UK Budget. The main difference in approach is that a draft budget is no longer published, as committees' pre-budget scrutiny should feed into the formulation of the Scottish Budget document. Although the timings are not fixed, normally the Scottish Budget will be published no more than three weeks after publication of the UK Budget and the Budget Bill will be introduced one week later.
24. The legislative process following publication of the Budget Bill, and the timescales for this, remain largely the same as they were (Appendix 2). Only the Government can propose amendments to the Bill. Committees and individual members can express their views on revenue and spending proposals through reasoned amendments to the Scottish Government's motion on the general principles of the Budget Bill at stage one. There was no change to the existing procedure that only Ministers can lodge amendments to the Budget Bill at stages two and three. The BPRG carefully considered other options and concluded that this approach provides the right balance between meaningful parliamentary influence in setting the budget and overall Government control of the public finances.
25. To enhance the role of committees once the Budget Bill has been introduced, there is now a debate on committees' pre-budget scrutiny before the stage one debate on the Budget Bill. This debate in the chamber, led by the Finance and Constitution Committee, provides an opportunity for Convenors of each committee to highlight

issues from their budget scrutiny and for the Cabinet Secretary for Finance, Economy and Fair Work to respond.

26. Currently, different legislative and non-legislative mechanisms are used to set or amend tax rates and bands and authorise the collection of revenue. Views received by the BPRG suggested that these approaches may not be flexible enough to allow a timely and effective response, particularly where tax measures need to be introduced quickly or minor amendments are needed to existing primary legislation. The group recommended that the Finance and Constitution Committee, Scottish Government and Revenue Scotland explore options for alternative legislative processes for devolved taxes. This work is continuing.
27. The BPRG considered whether all revenue related powers should be collectively included in a Finance Bill. The UK Government's annual Finance Bill provides a single legislative vehicle for revenue related changes requiring primary legislation, for both new taxes and changes to existing taxes. It allows for the UK Government to amend taxes in advance of parliamentary scrutiny of the draft legislation to deliver changes. The BPRG recognised that there may be good reasons for the introduction of a Finance Bill and recommended that the Scottish Government and Finance and Constitution Committee examine this further and bring forward any proposals by the end of the current Parliament in 2021.

## Conclusion

28. The first cycle of the new budget process completed with the passing of the 2019/20 budget in February 2019, two and a half years after the BPRG was established. This marked a significant shift in approach to budget scrutiny and created momentum, which provides a good foundation on which to build. The BPRG recommended transformational changes that will take time to implement fully. I expect the budget process to continue to evolve during the current parliamentary session, as the new approaches and ways of working bed in.
29. The review of the budget process provided an opportunity to create financial scrutiny processes that are world class, reflecting international best practice in a way that suits Scotland. Balancing our aspirations for what the process might achieve with the practicalities of implementation will require both ambition and realism.

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## Appendix 1: Financial Issues Advisory Group principles

The Financial Issues Advisory Group stated that any Scottish budgeting system should be capable of:

- providing opportunities for the Parliament to comment on expenditure priorities and to influence the Governments' preparation of budgets
- providing the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process
- providing sufficient time for the Parliament to consider and debate proposals fully
- providing balance between the requirement for parliamentary scrutiny and the needs of the Executive
- providing some degree of certainty so that on-going activities can continue without prolonged uncertainty
- providing an efficient mechanism to deliver motions to be debated by the Parliament
- providing a meaningful role for subject committees and the Finance Committee
- delivering timeous decisions on tax varying powers and the budget (as well as the interim spending approval and budget amendments)
- engaging all MSPs
- facilitating the Executive's formulation of proposals
- providing for the right of amendment.

## Appendix 2: Timeline of the Scottish legislative budget process

