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Financial Scrutiny Unit Briefing

Guide to the Scottish Budget – Subject Profile

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This briefing describes the principles and processes underpinning the Scottish Budget. It considers how well the Scottish Budget process measures up to budget scrutiny best practice, and outlines some of the important budgetary issues that might develop over the course of this Parliament.

It updates SPICe Briefing 07/33.

The Scottish Parliament
Pàrlamaid na h-Alba

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EXECUTIVE SUMMARY

Background

The Scottish Budget process is designed to allow for much greater Parliamentary input and scrutiny than occurs at Westminster where House of Commons influence on Government spending plans is limited. This was the aim of the Financial Issues Advisory Group (FIAG), established to recommend a budgetary process for the new Scottish Parliament. FIAG was influenced by the prevailing mood of the late 1990s that the Scottish Parliament should be as open and accessible as possible. That mood was reflected in FIAG's recommendations that subject committees should be involved in the budgetary process, and that they and the Finance Committee should be free to make alternative budget proposals to the Government's Draft Budget.

The Scottish Budget process meets many of the criteria for budget scrutiny international best practice. Despite this, the Budget Bill that is passed does not vary much in its spending allocations from the Draft Budget. It is probably fair to say that individual MSPs and committees have been reluctant to suggest alternatives to the budget for a variety of reasons – ranging from a feeling that they lack the information to make informed decisions, to a reluctance to suggest consequent cuts to fund increased allocations to a budgetary priority. Nevertheless, the process in place does allow, and has allowed for, Parliamentary influence on Government budgetary priorities, as well as improvements to the quality of information contained within the budgetary documents.

This briefing summarises the key features and influences on the Scottish Budget process and concludes with a summary of some of the potential important budgetary developments in this Parliamentary term – namely, funding public services in the context of real term reductions to the Budget, and considering the implications of the powers within the Scotland Bill for the Budget process.

THE BUDGET PROCESS

Budget Strategy Phase (BSP)
(March to June)

ONCE PER PARLIAMENTARY SESSION

The Scottish Government produces a document to support this process. The Finance Committee conducts its own inquiry into the budget strategy between April and May.

Finance Committee oversees consultation process with subject committees

↓

April/May: in BSP years, subject committees examine priorities in their policy areas. Send reports to Finance Committee

↓

June: in BSP years, Finance Committee Reports to Parliament. Parliament debates this Report

↓

Draft Budget Phase
(September – December)

Draft spending plans are normally published in September, however, can be later depending on the UK Budget and Spending Review timetable. Again, each subject committee may report to the Finance Committee on relevant parts of the package, and, where a BSP has taken place, to identify whether the Parliament's BSP recommendations have been acted upon by the Government.

September: Government publishes Draft Budget and Spending Plans

↓

Subject committees examine and send reports to Finance Committee

↓

Finance Committee considers the Draft Budget and may propose alternative

↓

December: Finance Committee Report; Parliament debates Report

↓

Budget Bill Phase
(January – February)

The formal parliamentary process of enacting the Budget Bill. Only a member of the Government may move amendments. Parliament has a vote to accept or reject it.

January: Government produces proposals (having considered Parliament's recommendations)

↓

Parliament debates Budget Bill

INTRODUCTION

The Scottish Budget funds the expenditure of the Scottish Government and its associated departments and agencies, health boards, local authorities, non-departmental public bodies (NDPBs), the Scottish Parliament and Audit Scotland. It funds both current, and the majority of capital expenditure for these organisations. Current expenditure includes most direct expenditure on day-to-day public services like health and education, and pays the salaries of public sector workers. Capital expenditure is money spent on physical assets, for example, new construction, land, extension and alterations to existing buildings and the purchase of fixed assets like plant and machinery.[1]

ORIGINS OF THE BUDGET PROCESS

FINANCIAL ISSUES ADVISORY GROUP (FIAG)

The budget process for post-devolution Scotland was developed in the late 1990s and was influenced by the prevailing attitude that the new Parliament should be as open and accessible as possible. These values informed the work of the Consultative Steering Group (CSG), established by the then Secretary of State, Donald Dewar MP, under the chairmanship of Henry McLeish MP, in order to develop the principles by which the Parliament and Executive would operate. As part of this, a smaller group on finance issues was established to inform the CSG. This was known as the Financial Issues Advisory Group (FIAG) and consisted of public finance experts and senior civil servants. FIAG's report was published in 1998 and recommended a three stage process of budget scrutiny and authorisation that marked a departure from the Westminster model (Scottish Office 1998).

According to FIAG, the problems with budget scrutiny at Westminster were four-fold:

- the limited time available for discussion of budget proposals on the floor of the House
- the motions available do not allow the House of Commons to influence the budget proposals
- the range of documents in which financial information is presented and the way in which such documents are considered by Parliament is less than satisfactory
- many MPs lack the time and the technical expertise required to understand the budget documents

The report went on to argue that:

> Therefore, the Westminster system has not succeeded in promoting a constructive discussion of budgetary and expenditure priorities or a sensible dialogue between Executive and Parliament on these issues. As a result, the UK Parliament has no meaningful input and the approval of expenditure is made ex post facto. So, although the present system ensures that financial information is presented, it does not encourage the House and its Committees to make the best use of that information. (Scottish Office 1998, p28)

The Group produced 82 recommendations across five broad areas, the first two of which are most relevant to the budget process in Scotland:

- **Terminology** – the need to use plain English, and standard accountancy terms where possible to aid a wider understanding of and therefore participation in the budgetary process.

[1] Infrastructure can also be delivered by PPP (Public Private Partnerships) and NPD (Non-profit distributing) funding methods. PPP/NPD projects involve capital assets being delivered, but funded from current expenditure in the form of unitary payments usually paid over the course of 25-30 years.

- **Budgetary procedures** – a budget process less dominated by the Executive, involving greater scrutiny by the Parliament than is the case at Westminster.
- **Accounting Arrangements** –the accounts should be presented in an accessible manner, should be wide ranging and should cover financial as well as performance information.
- **Accountability** – including providing clear lines of accountability through a system of "accountable officers" and explicit rights of access to a range of financial information for the Auditor General for Scotland,
- **Audit Arrangements** - including a need for a streamlining of audit functions.

Despite the move at the time to three-yearly planning at the UK level via Spending Reviews which were first introduced by the UK Labour Government in 1998, FIAG argued that there was still a strong need for statutory annual budget procedures and recommended that the Scottish Parliament introduce an annual procedure to scrutinise and approve the Scottish Government's spending proposals. FIAG said that, as a matter of good practice, the Budget should be approved prior to the commencement of each financial year.

LEGISLATIVE BASIS

Basic financial provisions for the Parliament were set by the Scotland Act 1998 (c 46). This required the establishment of the Scottish Consolidated Fund into which payments were to be made by the Secretary of State for Scotland (mainly the assigned budget, which is discussed below), the proceeds of varying the tax rate, and other receipts. The Act also provides for the Secretary of State to lend Scottish Ministers up to £0.5 billion for meeting a temporary shortfall on the Fund. While taxation in general is reserved (except for the varying power), the Act allows for the Parliament to legislate on local taxation and charges for public services.

The arrangements were further developed by the Public Finance and Accountability (Scotland) Act 2000 (asp 1), which was the first primary legislation (barring an emergency Act) to be passed by the new Parliament.

In 1999, Jack McConnell, then Minister for Finance and Local Government, stated that the aims of the legislation were:

- to create a world class system of financial management for the Scottish Parliament
- to enable the Scottish Parliament to make informed, transparent decisions on expenditure and hold to account those who spend public money
- to meet the requirements of the Scotland Act for Scottish legislation on financial issues

HOW IS THE SCOTTISH BUDGET PROCESS CONSTRUCTED?

"The Budget" (also referred to as Total Managed Expenditure, or TME) is essentially the budget that the Scottish Parliament is required to approve each year with the passing of the Budget Act. The vast majority of the budget is funded by a grant authorised by Westminster. The budget is also composed of locally financed expenditure (non-domestic rates) and the variable rate of income tax should the Scottish Parliament opt to utilise its power in this regard[2]. Scotland's share of European Structural Funding is also allocated through the assigned budget from Westminster.

Expenditure is paid from the Scottish Consolidated Fund which is, in effect, a "bank account" into which payments are made and from which all expenditure incurred by the Scottish Government, Scottish Parliament and associated bodies is taken. Most of the receipts are paid into the Fund by the Secretary of State for Scotland, being the monies authorised by the

[2] The income tax varying power has not been used since the establishment of the Scottish Parliament.

Westminster Parliament to fund the Scottish assigned budget. Payments into the account also include receipts from charges and other income.

The budget is composed of a number of different categories of public expenditure:

- **Departmental Expenditure Limit (DEL)**: Broadly speaking, this is the bulk of the Scottish budget. DELs are divided into current and capital budgets and account for approximately 85% of the total Scottish budget in 2011-12. Changes to Scotland's allocated DEL budgets are determined through the Barnett Formula.

- **Annually Managed Expenditure (AME)**: This is spending included in the budget but not falling within DEL. Expenditure in AME is generally less predictable, more demand led and so less controllable than expenditure in DEL. It therefore needs to be "annually managed" rather than determined on a longer-term basis. The main AME items in the Scottish budget are student loans and NHS and teachers' pensions. AME accounts for approximately 15% of TME in 2011-12. The Barnett Formula does not apply to spending in AME.

(These components are not unique to the Scottish Budget. All other UK Government departments' spending plans are also composed of DEL and, where appropriate, AME).

- **Non-Domestic Rates Income (NDRI)**: This forms part of the Scottish Government's support to local authorities. NDRI is more commonly referred to as business rates. All commercial properties pay rates based on rateable values of properties multiplied by a rate poundage. Prior to 1989 the business rate poundage was set by local authorities; however since then a "uniform business rate" has been set centrally. Local authorities collect the tax. Up to, and including 2010-11, the non-domestic rates collected by local authorities were "pooled" and redistributed to authorities on the basis of population. With effect from 1 April 2011-12 local authorities will now retain all the non-domestic rate income collected within their boundaries.

THE SCOTTISH PARLIAMENT'S ROLE IN ALLOCATING EXPENDITURE

Apart from the power to vary the basic level of taxation, the Scottish Parliament's budgetary role is restricted to authorising expenditure, rather than generating income and raising taxes. This is one important difference between the process and its counterpart at Westminster. Budget scrutiny largely concentrates on allocations within the overall total, rather than the adequacy of that total – however, increasing income tax could yield additional funds if that was considered necessary.

The process is intended to allow the Parliament's Finance Committee and subject committees the opportunity to comment on the Scottish Government's spending plans during the year prior to the annual budget being agreed. The expectation is that the Finance Committee and subject committees should have an active role in scrutinising and making recommendations on spending priorities.

The Budget process scrutinises the year prior to the financial year being discussed, i.e. in 2010-11, the budget proposals for 2011-12 were analysed. The Budget documents record expenditure at different "levels". The Draft Budget contains information at Levels 1, 2 and 3. "Level 1" is expenditure recorded at portfolio level – for example, Education and Lifelong Learning, Justice or Health and Wellbeing. "Level 2" is expenditure recorded at sub-portfolio level – for example, Student Awards Agency for Scotland (within Education and Lifelong

Learning), Scottish Prison Service (within Justice) or Health Improvement (within Health and Wellbeing). Finally, “Level 3” records expenditure in greater detail – for example Major Events and Themed Years (within the Office of the First Minister) or the Less Favoured Area Support Scheme (within the Environment and Rural Development Portfolio). For comparative purposes (with the Draft Budget), the Budget Bill Supporting Document provides expenditure down to Level 2, but does not provide Level 3 expenditure.

The most detailed level of spending is “Level 4” which is not contained within the Budget documents but, where available, is provided to subject committees after the Budget has been published. When provided, Level 4 information is collected and published online by the Financial Scrutiny Unit (FSU).

The Budget stages are summarised below, and were initially recommended by the Finance Committee in its 2009 Review of the Budget Process (Scottish Parliament Finance Committee 2009) and formally agreed with the Scottish Government in a Written Agreement (Scottish Parliament Finance Committee 2011).

The Scottish Budget Process Stages

Budget Strategy Phase – takes place at least once per Parliamentary term. *Aim* – The Finance Committee agreed that the BSP should allow the Parliament to scrutinise the progress which the Scottish Government is making in delivering its own targets through its spending priorities, and to take a strategic overview of the public finances. *Timescale* – The timing of the BSP should remain flexible, but the next BSP will take place in the March to June prior to the next UK Spending Review *Activity* – The Finance Committee leads the scrutiny in the BSP but welcomes the engagement of subject committees if they are able to incorporate scrutiny into their work programmes.
Draft Budget Scrutiny Phase – takes place annually. *Aim* – This phase allows subject committees the opportunity to scrutinise the Government’s Draft Budget which presents firm spending plans for the following financial year. It also provides the Finance Committee with the opportunity to propose an alternative budget. *Timescale* – The Scottish Government normally present their proposals by 20 September (or the first sitting day thereafter). The Finance Committee produces a report, to be debated by the Parliament before the end of December. However, this timescale can be affected by timings of UK Spending Reviews – Scottish Government Draft Budgets in 2007 and 2010 were delayed until November due to the UK Spending Reviews not being published until October. *Activity* – The Finance Committee co-ordinates the responses from the subject committees (and the Equal Opportunities Committee which is a mandatory Committee). The Parliament debates a motion tabled by the Finance Committee. Committees or individual members may also table motions at this stage.
Budget Bill Phase – takes place annually. *Aim* – This stage provides Parliamentary authority for spending in Scotland for the following financial year. *Timescale* – The time allocated to the passage of the Budget Bill is truncated. The Government must introduce the Budget Bill by 20 January each year (or the first day thereafter on which the Parliament sits). Stage 3 of the Bill must begin between 20 and 30 days from introduction. If the Budget Act is not in place by the end of the financial year, the Public Finance and Accountability (Scotland) Act 2000 allows for expenditure to continue for previously approved purposes up to the same rate as the previous year. *Activity* – Only a member of the Scottish Government is allowed to bring forward amendments to the Bill at this stage. The Parliament finally passes the Budget Bill, approving expenditure for the following financial year.

TAX VARYING POWER

Sections 73 to 80 of the Scotland Act 1998 allow the Scottish Parliament to raise or lower the basic rate of income tax by up to three pence (in multiples of half pence). Any variation would apply to the taxable income of Scottish taxpayers. Scottish taxpayers are defined as people resident in the UK for tax purposes and spending more time in Scotland than elsewhere in the UK. MSPs, MPs and MEPs representing Scottish constituencies are covered regardless of their residential circumstances. A resolution to exercise the tax-varying power can only be moved by a member of the Government.

Sections 77 and 78 of the Scotland Act 1998 provide that an estimate of the revenue to be raised through any increase in the basic rate will be paid by the Inland Revenue (now HMRC) to the Scottish Consolidated Fund. Were the basic rate to be reduced in Scotland, the Scottish Consolidated Fund would be required to pay an amount equal to the estimated shortfall into the UK Consolidated Fund. If the tax-varying power is used, the Scottish Departmental Expenditure Limit (DEL) will be adjusted to take account of any change in the amount available to spend.

UK FACTORS INFLUENCING THE SCOTTISH BUDGET

SPENDING REVIEWS

Prior to 1997, Scottish Office budgets were drawn up in annual negotiations with the Treasury (although forward planning was done on a loose three-year basis, known as the Public Expenditure Survey (PES)). In 1998, the Labour Government replaced this model with the Spending Review process described as a “three year plan reviewed every two years”. The intention has been to fix firm three-year plans for the bulk of the budget (the part known as the Departmental Expenditure Limit), and only annually plan for those parts of the budget that cannot be planned for over a longer time-frame (Annually Managed Expenditure). The first Spending Review was announced in 1998 and was described as a comprehensive review of departmental aims and objectives alongside an analysis of each spending programme. Spending Reviews followed in 2000, 2002 and 2004, with the Spending Review scheduled for 2006 delayed until 2007. There was no updated Spending Review published prior to the UK election of 2010. Following the election, the new Conservative-Liberal Democrat coalition published a Spending Review in October 2010, outlining spending plans for 2011-12 to 2014-15.

Up until and including 2007, Spending Reviews occurred during a period of expansion of public spending, meaning that each Review had the effect of releasing additional resources to Scotland, mainly via the Barnett Formula. The most recent UK Spending Review in October 2010, however, allocated the first real terms decline in the Scottish Budget since devolution.

UK Spending Reviews were initially published in summer, which allowed the Scottish Government time to formulate spending plans prior to the Draft Budget being published in September. However the last two UK Spending Reviews of 2007 and 2010 have taken place in October which has had the effect of pushing back the Scottish Government’s Draft Budget to November and truncating the Draft Budget scrutiny stage in the Scottish Parliament.

UK Spending Reviews are normally followed by a Scottish Spending Review a couple of months later. However, after the UK Government published its October 2010 Spending Review, the Scottish Government opted to delay its own Spending Review until September 2011 (covering financial years 2012-2015) and after the publication of the Commission on the Future Delivery of Public Services (2011).

UK BUDGETS

In addition, the UK Budget can also increase or decrease available resources, outwith the Spending Review process. Changes to spending announced by the Chancellor in his Budget statement in March or April and in his Pre-Budget statement in November or December will reach Scotland as a consequential of the Barnett Formula (see below). Changes arising from UK Budgets mean that the total budget estimated in the Draft Budget can be altered during the course of the year.

UNDERSPEND

UK Government accounting rules deem that Departments and devolved administrations are not permitted to overspend in a financial year. This means that the Scottish Parliament cannot authorise expenditure in excess of the total assigned budget and other sources of income. The Treasury's Statement of Funding Policy, lays out the arrangements for funding the devolved administrations as follows:

> "Breaches in DELs which materialise at the end of the year would be viewed by the United Kingdom Government as serious mismanagement on the part of the devolved administration and the presumption would be that the following year's DEL and grant to the devolved administration would be reduced by an amount equivalent to the breach. The same rule applies to departments of the United Kingdom Government" (Treasury 2010).

However, the rules relating to unspent monies (known as underspends) were relaxed in the late 1999s by the then UK Government. Prior to the late 1990s, any departmental underspend would automatically transfer back to the centre. However, the introduction of End Year Flexibility (EYF) allowed departments and devolved administrations to carry forward unspent monies from one year to the following. This was partly as a result of the move to Spending Reviews which outlined three-year DELs, but was also designed to prevent the practice of inefficient spending by departments concerned at losing money – in essence "spending for the sake of it" at the end of financial year.

The Coalition Government elected in 2010 ended this system of EYF and introduced a "Budget Exchange Mechanism" (BEM) in its place. This system allowed for a limited amount of unspent monies to be carried over from one year to the next. Departments and devolved administrations would inform the Treasury in November what they were expecting to underspend in that financial year. Any underspend beyond that amount would return to the centre. Accumulated underspends were also to be returned to the centre as part of the BEM. This was not a great problem for the Scottish Government who had run down their accumulated underspends in previous years. However, the Northern Ireland Assembly and Welsh Assembly Governments had built up underspends over a number of years and, under the new BEM, lost that money to the centre.

The Finance Ministers Quadrilateral meeting of 14 July 2011 agreed a modification to this arrangement. Devolved administrations would be allowed to carry over unspent monies from year to year up to a set limit, rather than having to estimate anticipated underspends to Treasury in November. It was agreed that the Scottish Government would be allowed to carry over up to a maximum 0.6% of Resource DEL and 1.5% of Capital DEL from one financial year to the next.

BUDGET REVISIONS

Each Budget (Scotland) Act authorises planned expenditure for the following financial year. However, in reality, spending commitments will inevitably shift within that year and more, or less, money will be required for different spending areas than originally envisaged. Therefore, the Scottish Government is able to request parliamentary authority to make in-year changes. These are known as “budget revisions”, and usually occur in the autumn and spring (although there is also the opportunity for a summer revision where required). These are changes that apply to the current financial year and are outwith the annual Budget process outlined above (which always scrutinises plans for the next financial year).

Budget revisions can seek parliamentary approval to:

- transfer monies between Scottish Government portfolio budgets
- allocate transfers (increases or decreases) of monies between the UK Government and the Scottish Government

The Finance Committee has responsibility for scrutinising the proposals, in the relevant Scottish Statutory Instrument, and making a recommendation to the Parliament as to whether or not they should be agreed.

THE RESERVE (OR CONTINGENCY FUND)

The Reserve is a small budget maintained by the Scottish Government in order to meet (from within the assigned budget) exceptional expenditure that could not have been foreseen at the time the budget was set. FIAG recommended the establishment of some kind of fund:

> There is a requirement to provide funding to meet sudden, unexpected needs. In most cases, this will require additional expenditure on areas where spending already takes place. For example, in the event of a natural disaster, it may be necessary to supplement grants to a local authority, For this reason, FIAG recommends that Parliament makes arrangements to set aside each year, a Reserve. This would consist of money that will be held back to deal with any crises that arise. (Scottish Office 1998)

Access to the Reserve is essentially a bidding process, with the relevant Minister applying for additional funding (with, where appropriate, Cabinet approval). Parliamentary authority would be sought as part of the usual process of in-year revisions (i.e. scrutinised by the Finance Committee, see above).

In addition, a UK Reserve exists and access to this by the Secretary of State for Scotland on behalf of the Scottish Government can be considered by Treasury Ministers in exceptional circumstances. The expectation of the UK Government is that all UK departments and the devolved administrations must spend within their allocated spending plans and absorb unforeseen pressures. The presumption is that devolved administrations will contain pressures on their budget by re-allocating priorities. The devolved administrations will be treated in the same manner as United Kingdom departments in decisions on access to the DEL Reserve (Treasury 2010, p28). Applications might be made where large amounts of unforeseen expenditure were incurred by the Scottish Government (for example, the impact of some unforeseen event, like Foot and Mouth Disease).

THE BARNETT FORMULA

The formula was introduced in 1978 and is designed to apply automatically to Scotland a proportionate share (based on population) of any increase or decrease in comparable UK spending programmes.[3] UK spending departments reach agreement with the Treasury through departmental negotiation and the Barnett Formula then ensures that Scotland and Wales receive adjustments in the same spending areas, on the basis of their population share.

As originally devised, the population proportions reflected population estimates from 1976 by which Scotland received 10/85^{ths} of any increase/decrease in comparable programmes. In 1992, these were "recalibrated" to reflect changes in population ratios based on data from the 1991 census. Following devolution, population shares are re-calculated annually on the basis of the latest mid-year population estimates for England, Scotland and Wales published by the Office of National Statistics (Treasury 2010). The population percentages currently applying are:

Scotland as a proportion of England:	10.03%
Scotland as a proportion of England and Wales:	9.48%

The formula is applied only when there are *changes* to expenditure in England and, once allocated, Scottish Ministers are not obliged to make changes in the same spending area as in England. The formula only applies to comparable devolved spending and has no relevance to UK Government expenditure in Scotland by other departments, e.g. the Ministry of Defence or the Department for Work and Pensions. Contrary to some popular misconception, the Barnett Formula is not and never has been a "needs-based formula" and has never attempted to allocate expenditure on the basis of comparative need. It is simply a transparent way of allocating changes on the basis of population share.

The Formula applies to changes in the assigned budget within DEL, but not to Annually Managed Expenditure (AME) which is calculated on an annual basis according to actual requirement.[4]

AUDITING ARRANGEMENTS

The Auditor General for Scotland is responsible for scrutinising the accounts of departments of the Scottish Government and most other public spending bodies (with the exception of local authorities and fire and police boards, which are the responsibility of the Accounts Commission for Scotland). He is an independent official, appointed by the Queen on the nomination of the Parliament and can only be removed by a two-thirds majority of the members of the Parliament.

Scottish Ministers, the Lord Advocate and any other accountable individual receiving money from the Scottish Consolidated Fund (e.g. the Registrar General), are required by the Public Finance and Accountability (Scotland) Act 2000, to prepare accounts for each financial year. The Auditor General must audit these accounts (either himself or through an appointed auditor) and send both the accounts and the auditor's report to Scottish Ministers who must lay the accounts before the Parliament.

[3] In this sense, "UK" means either English or English and Welsh programmes.
[4] Main AME items in the Scottish budget include Student Loans spending, housing support grant and NHS and teachers' pensions, motorways & trunk roads cost of capital charge, local authority self-financed expenditure and non-domestic rates

He may also conduct Value-For-Money (VFM) examinations or “performance audits” into the economy, efficiency and effectiveness of public bodies in their use of resources.

The Accounts Commission for Scotland was set up in 1975 and is independent of both central and local government. The Commission is responsible for securing the audit of the 32 local authorities and 34 joint boards. It also seeks to promote “best value” and aims to assist audited bodies to achieve economic, efficient and effective use of their resources.

Audit Scotland provides services to the Auditor General and the Accounts Commission for Scotland. Its role is to ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public money. Audit Scotland receives funding as a discrete vote within the Budget (Scotland) Act each year, thereby maintaining its independence from the Scottish Government.

HOW DOES THE SCOTTISH BUDGET PROCESS COMPARE TO OTHER BUDGET PROCESSES?

COMPARING THE SCOTTISH PROCESS WITH INTERNATIONAL BEST PRACTICE

A study by Krafchick and Wehner (1999), updated by Wehner in 2006, looked at the international best practice in budget scrutiny and sought to identify why some legislatures were more effective than others at influencing a government’s budget. The main factors identified as influencing the role of the Budget Committee in shaping the budget are summarised in the table below (see left hand column). An attempt has been made to assess how the Scottish process compares against each of the best practice criteria (right hand column).

Table 1: How does Scottish Budget process compare with international best practice in budget scrutiny?

Factors influencing the Budget process	In place in the Scottish Budget process?
The Location of amendment powers. Has the Budget Committee the right to suggest amendments to the Budget to the plenary? In the absence of such suggestions, amendments to the budget are not likely to be taken by the plenary.	The Scottish Parliament’s Finance Committee can suggest an alternative budget at the Draft Budget scrutiny stage of the process, provided it remains within the Government’s aggregate total. It should be noted, however, that even if an amendment is agreed to, this does not automatically guarantee that expenditure proposals will be amended in the subsequent Budget Bill. Only members of the Scottish Government may move amendments at the Budget Bill phase.
Time allocated to committee debate of the budget. How much time is allowed for the Budget Committee of a Parliament to analyse the Budget and to formulate amendments? A suitable amount of time is required.	The Subject Committees and the Finance Committee have opportunities to scrutinise the Government’s plans from March to June (when there is a Budget Strategy phase) and from September to December at the Draft Budget scrutiny stage of the Budget process.
Involvement of other committees in the budget process. How is the involvement of other committees in	In the Scottish Budget scrutiny system, the Finance Committee co-ordinates input from the subject committees and incorporates subject

the budget process organised? What are the relations between the Budget Committee and the other committees? Only when the Budget Committee has a strong co-ordinating role with regard to the numerous wishes and inputs from the other committees can substantial amendments to the draft budget be expected.	committee views into its report.
Information from the government. Does the Budget Committee have access to sufficient information from government? Timely information on the implementation of the current budget for instance, is crucial to the Budget Committee.	While there is always going to be debate as to the adequacy of the information provided by the Government, parliamentarians can seek improvements to the information via the existing process (ie through committee reports or plenary debates on the Budget). The timing of the Scottish Budget is also "at the mercy" of the UK Budget timing – for example, UK Spending Review timings can delay Scottish Budget publications and lead to reductions in time available for Budget scrutiny by the Scottish Parliament.
Independent research. Is the Budget Committee sufficiently supported by independent research? The Congressional Budget Office (CBO) for instance, with over 200 specialised research staff undertakes objective analyses and Budget projections. The CBO exerts considerable influence on budget policy.	Scotland's Budget process does not have the support infrastructure of the CBO, nor the resource held by the civil service. However, the Financial Scrutiny Unit (FSU) has been established and is available and has access to a limited budget for "external" research when required. The Finance Committee also has a standing budget adviser and subject committees are free to appoint budget advisers if they wish.
Treatment of Audit findings. Are the results of the control of the Auditor General and the results of the Public Accounts Committee (Auditing Committee) fed into the budgetary process? If not, the Budget Committee is missing a significant source of expert opinion and information.	There are currently no institutional arrangements in place to feed Audit findings directly into the Budget process. However, any committee is free to make use of a report by the Auditor General.
Involvement of the Budget Committee in ordinary legislation. Is the Budget Committee sufficiently involved in ordinary (non-budgetary) legislation in order to ensure that such legislation is robustly costed?	All Financial Memoranda for Bills go before the Finance Committee for scrutiny. The Finance Committee reports to the legislation's lead committee which takes the Finance Committee's views into account.
Internal organisation of the Budget Committee. Is the Budget Committee well enough organised to fulfil its remit efficiently?	The Finance Committee of the Scottish Parliament is staffed by a clerking team, an adviser and is supported by the FSU.

Source: Adapted from Krafchick and Wehner 1999, Wehner 2006.

Overall, on paper at least, the Scottish process when measured against most of these criteria comes out relatively favourably. Scotland is better placed than many legislatures in that it has some capacity for budget research, via the FSU and Budget advisers. In addition, Scotland is in line with best practice when it comes to time allocated to budget scrutiny, the committee structure in place for dealing with the budget and the involvement of the Finance Committee in ordinary legislation. However, in working towards improving the Scottish process, the literature suggests that it is important that parliamentarians continue to use the channels in place to seek improvements to information from the Government, and that audit findings are more systematically fed into the budgetary process.

Looking at the Budget process in practice since devolution, it is clear that there has been a lack of amendments lodged by individual members and committees at the Draft Budget scrutiny stage of the budget process. This may be explained by members and committees feeling that they don't have the required information (which comes from the much larger government civil service) to make informed decisions about increasing spend in one area and cutting in another (Scottish Parliament Finance Committee 2007). Within the fixed Scottish Budget, any increase in one area must be funded by a reduction in another, which is an obvious political difficulty. There is also perhaps a feeling among some members that the Budget is complex, and something purely for the Finance Committee to deal with – as such there has perhaps been a feeling of alienation with the process among some members. To attempt to combat this, subject committees have regularly appointed Budget advisers and have been encouraged by the Finance Committee to "mainstream" budget scrutiny into their core legislative and inquiry work programmes (Scottish Parliament Finance Committee 2009).

Despite there being room for improvement in how the Parliament engages with the Scottish Budget process, it is clear that the Parliament has made positive strides in gaining better budgetary information from the Government, and through the process retains significant powers to influence the Government's budgetary priorities.

POTENTIAL BUDGETARY DEVELOPMENTS IN THIS PARLIAMENTARY TERM

The Scottish Parliament's fourth Session promises to be by far the most challenging for public spending since devolution. While the first decade of the Scottish Parliament saw an average real terms annual increase in the Scottish budget of over 5% per annum, the second decade (certainly the first half of it) is likely to see an average real terms reduction in the Scottish Budget. Indeed, the Scottish Government's Office of the Chief Economic Adviser does not expect Scottish Government DEL expenditure (the discretionary element of the Scottish Budget) to regain its 2009-10 real terms level until 2025-26 (Scottish Government 2011). The challenge for the Scottish Parliament and Government will be dealing with the cuts in the short term whilst being aware of the likelihood that public spending is unlikely to return to high growth in the medium term.

The Scotland Bill, which is currently being scrutinised by the Scottish Parliament's Scotland Bill Committee and at Westminster, has a number of proposals which will have an impact on the Scottish Budget process. As the box below shows, should the Bill be enacted in its current form, some of the Bill's proposed powers will impact on this Scottish Parliamentary term, and some on the next.

Timing of Scotland Bill financial/economic powers accruing to the Scottish Parliament

- From enactment of the Scotland Bill – the Scottish Parliament can introduce new Scotland specific taxes, for example, environmental taxes and put payments into a Scottish cash reserve
- From April 2012 – Office for Budget Responsibility (OBR) to start forecasting Scottish tax receipts (income tax, landfill tax, Stamp Duty Land Tax (SDLT) and aggregates levy)
- From April 2013 – new capital borrowing power will come into force
- From April 2015 – SDLT and landfill tax devolved and adjustment made to block grant for them and new borrowing power to allow for deviations between forecast and outturn receipts
- From 2015 – Scottish Government to take decision on Scottish rate of income tax for 2016 budget
- From April 2016 – new Scottish rate of income tax with transitional arrangements for deduction from block grant
- From 2018/19 – permanent reduction from block grant calculated

Given the powers potentially accruing to the Scottish Parliament, consideration will have to be given by this Parliament to how these might impact on the Parliament's budget scrutiny function. Specific areas that might need to be explored are as follows:

- Under the Scotland Bill powers there will need to be a decision taken annually on how much the Scottish Government might wish to borrow and repay in its debt in any given year. What will be the Finance Committee and wider Parliament role in scrutinising Scottish Government decisions in this area? Consideration will need to be given as to whether decisions related to borrowing and debt repayment will be included within the current budget process or whether additional parliamentary procedures may be required. The Written Agreement between the Finance Committee and the Scottish Government may also need to be amended.
- Under the Scotland Bill powers there will need to be a decision taken annually on the rate at which income tax, landfill tax, SDLT and aggregates levy are to be set. Consideration will need to be given to how this decision is included in the budget process (factoring in implementation times – the current income tax powers have a 10 month implementation time).
- What governance arrangements within the Scottish Government will be required for the management of these additional powers. For instance would there be a need for more of a Treasury type arrangement than we currently have, with a Scottish Chancellor taking decisions on tax and spend?

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RELATED BRIEFINGS

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