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Kenneth Gibson MSP  
Convener  
Finance and Public Administration Committee  
Scottish Parliament  
Edinburgh  
EH99 1SP

25 March 2025

Dear Convener,

I welcome this opportunity to respond to the Committee's inquiry into the Scottish Budget process in practice.

The Scottish Fiscal Commission is the independent fiscal institution for Scotland. We produce Scotland's official, independent economic and fiscal forecasts to accompany the Scottish Government's Budget. Within the year round Budget cycle we produce forecasts to accompany the Scottish Budget, typically in December, and the Scottish Government's Medium-Term Financial Strategy, typically in May. These reports provide forecasts of the Scottish economy, revenues from devolved taxes and spending on devolved social security payments. We provide an overview of the Scottish Government's funding and spending positions and assess its plans for borrowing and use of the Reserve.

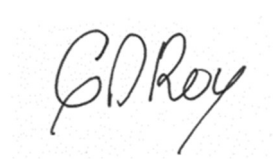
In late summer we publish an evaluation of our forecasts following the release of outturn data. In 2024 this was accompanied by a Fiscal Update which explained how the latest outturn data and recent developments would affect the funding position both in-year and for the upcoming budget. This was judged to be a useful snapshot as the Scottish Parliament began its annual process of Budget scrutiny so we plan to publish the Fiscal Update again in August 2025. We also produce reports on the fiscal sustainability of current government policies given long-term factors such as demographic change and climate change. These are typically published in March or April each year.

As well as producing regular reports on the Scottish Government's finances we also seek to improve understanding of the operation of the fiscal framework and the Scottish Budget process. A short video explaining the fiscal framework is available on [YouTube](#). We recently produced a series of short bite-sized videos which explain the Scottish Budget and fiscal framework. These can be found on our [website](#).

The annex to this letter includes a response to the specific questions raised in the inquiry.

We are looking forward to giving oral evidence to the Committee on 1 April 2025. Thank you for this opportunity for the Scottish Fiscal Commission to provide further input, we are happy to do all we can to aid the work of the Committee.

Yours sincerely

A handwritten signature in black ink that reads "G. Roy".

Professor Graeme Roy

## Annex: Responses to the questions raised in the Committee's Inquiry

### **Part 1: Four objectives to the budget process**

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

- *greater influence on formulation of the Scottish Government's budget proposals*
- *improved transparency and increased public understanding and awareness of the budget*
- *effective responses to new fiscal and wider policy challenges*
- *better outputs and outcomes as measured against benchmarks and stated objectives?*

The Scottish Fiscal Commission does not seek to influence the formulation of the budget proposals or assess its objectives.

We are able to comment on the transparency and understanding of the budget and the published outputs relating to the budget. Since the start of this parliamentary session in May 2021 there have been some welcome improvements in the information published by the Scottish Government as part of the Budget which improves its transparency.

In our biennial Statement of Data Needs published in August 2022 we identified several areas for improvement. These included the Scottish Government being clearer about the assumptions it makes in setting the Budget, and explaining how these change over time.

We also recommended that the Scottish Government published annual spending allocations on a Classifications of Functions of Government (COFOG) basis at the time of each Budget and to publish outturn spending by COFOG when that is available. The Scottish Government has published this for the last two Budgets which allows spending allocations to be compared through time, regardless of changing Scottish Government portfolio definitions.

At the Scottish Fiscal Commission we have also expanded the information we publish alongside the Budget and Medium-Term Financial Strategy (MTFS). We track the funding position of each Budget over time, making comparisons between the latest available information for the in-year position and the next five years. We have also begun analysing spending data, looking at Scottish Government's high level spending plans and trends over time based on COFOG.

This information relies on the Scottish Government's published plans. In December 2024 there was a difference of £1.3 billion between the latest in-year funding position and the spending plans for 2023-24 used as the comparison in the Budget documents.

This made the comparison between years less useful as it overstated the growth in 2025-26 spending plans. This was a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we were able to publish alongside the 2025-26 Scottish Budget.

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

There remain areas where the Scottish Government could provide more information to improve the transparency of the Scottish Budget. Our August 2024 Statement of Data Needs set out seven recommendations for the Scottish Government to improve the information published as part of the Budget, MTFS, Budget Revisions and provisional and final outturn.

- Publish and regularly update a machine-readable, open-source dataset with unrounded spending plans, down to Level 3 and COFOG, for as many financial years as is reasonably feasible. It should include plans at each stage of the budget's lifecycle for each level of the spending hierarchy and COFOG category as well as actual spend amounts (outturn) when available.
- Share spending data reconciled with total discretionary funding with the Scottish Fiscal Commission with sufficient time ahead of setting the Budget.
- Add unique codes to each Level 3 line when publishing the machine-readable, open-source dataset.
- Publish mapping of Level 3 lines when they get merged, split, or redefined. Associated amounts should be unrounded.
- Publish funding tables with unrounded amounts at Scottish Budgets, Medium-Term Financial Strategies, Budget Revisions, provisional and final outturn, in a consistent machine-readable and open-source format.
- Keep improving the Climate Change Assessment of the Scottish Budget and update it as the budget changes. Show if spend supports mitigation, adaptation, or both.
- Supply, where possible, consistent projections of basic pay awards, average pay bills, total paybill, and workforce for the devolved public sector in sufficient time for the SFC to consider for its forecasts alongside the Scottish Budget and MTFS.

- HM Treasury and Scottish Government to ensure timely publication of Barnett funding data, either by updating the Block Grant Transparency at each UK fiscal event or directly releasing detail on Barnett consequentials.

These recommendations seek to improve the transparency of the basis on which the budget is set and how the budget position is changing over time, both within year and between years.

### ***Part 2: Medium-Term Financial Strategy (MTFS)***

*The MTFS aims to focus on the longer-term sustainability of Scotland's public finances and support a strategic approach to financial planning.*

*The MTFS is expected to be published annually after the UK Spring Statement and at least four weeks before summer recess.*

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

The addition of the MTFS to the Budget process in 2018 has been a positive development, setting out five-year forecasts for the Scottish Government's spending and funding should support a greater consideration of the medium-term challenges facing the Scottish Budget. In turn this should encourage budget planning over multiple years rather than focusing on balancing the budget one year ahead.

The Scottish Fiscal Commission provides five-year forecasts of the economy, tax revenues and social security spending to support the MTFS. We also set out the five-year funding position based on the Scottish Government's borrowing plans and any assumptions the Government has made about funding sources over this period. We currently do not have a role forecasting spending, other than social security payments, and we do not provide any input to the scenarios presented by the Scottish Government in the MTFS.

In recent years the MTFS has been used by the Scottish Government to identify the gap between funding and spending plans. This has been a welcome development. The Scottish Government has also set out scenarios for spending and funding to assess the risks faced by the Scottish Budget in future years. The Scottish Fiscal Commission does not currently have any role in assessing these scenarios and risks.

The five-yearly cycle of Parliamentary elections in May means that the MTFS is unlikely to be published in an election year. This could be seen as a gap at a time when a new Government should be considering its finances at the start of a five-year term. It may be useful to explore ways of providing the Government and Parliament with this information, such as a combined Budget and MTFS in the December following an

election. This would ensure the new Government and Parliament considers the spending plans and funding and borrowing assumptions over the five-year term.

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

The Scottish Fiscal Commission normally meets with the Finance and Public Administration Committee to provide evidence after the publication of our forecasts for the MTFS. We would be happy to meet with other parliamentary committees after publication to support their scrutiny of the MTFS or as part of their pre-Budget scrutiny after the summer recess.

**Part 3: Fiscal Sustainability Delivery Plan**

*The Scottish Government said it will publish a Fiscal Sustainability Delivery Plan alongside the MTFS 2025 for the first time.*

*The government say this will support fiscal transparency and “stable ground” for longer-term financial planning.*

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

We support the ambition of greater fiscal transparency and longer-term financial planning. We are not yet aware what the Scottish Government plan to include in this document, but the Scottish Government faces fiscal sustainability challenges over the immediate, medium and long-term. It is important that any plan considers the long-term outlook and makes early preparations for these challenges as well as considering the more immediate challenges of balancing the budget over the next few years. Our recent reports on fiscal sustainability have highlighted the long-term challenges the Scottish Government will face from demographics, and adapting to and mitigating climate change. Our next long-term report will be published on 8 April and focuses on health spending.

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

The Scottish Fiscal Commission typically publishes its Fiscal Sustainability Reports and Perspectives in March or April. It could be helpful if the Delivery Plan published in May reflected the scale of challenges in these reports and allowed Parliament to judge how effectively the Government was planning to deliver fiscal sustainability in the short, medium and long term.

The Scottish Fiscal Commission intends to provide some commentary on the Plan in its May SEFF provided that we have sufficient access to early drafts. We would also be able to comment on the plan in our August Fiscal Update. Once we have sight of the first Delivery Plan we will be in a better position to assess how we can comment on the plan and link to potential future content of our work.

#### ***Part 4: Approach to spending reviews***

*The Scottish Government is expected to carry out a spending review linked to the equivalent UK spending review.*

*In advance, it is required to publish a framework document setting out the economic and political context, the criteria which will govern the assessment of budgets and the process and timetable for the spending review.*

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

This parliamentary session has not seen a cycle of regular spending reviews from either the Scottish or UK Governments. The last resource spending review was in May 2022, it only provided portfolio level allocations and did not provide allocations for individual spending lines. The assumptions made in that spending review quickly became outdated as inflation rose and public sector wages increased by more than planned for.

The new UK Government has committed to a more regular cycle of spending reviews. A regular cycle of UK spending reviews should mean that Block Grant funding is more certain and that the Scottish Government will therefore be in a better position to provide multi-year spending allocations.

We note the next Scottish election in May 2026 will be in the second year of the UK's three-year spending review. As the Scottish parliamentary cycle is unlikely to align perfectly with that of the UK Parliament and Spending Review cycle. There will never be an 'ideal' timing for a Scottish Spending Review, so we encourage the Scottish Government to set out multi-year spending plans even when these cross into a new parliament to support planning across the public sector. We would also encourage the Scottish Government to ensure spending reviews provide more detailed allocations than just at portfolio level to allow the NHS boards, local authorities and public bodies to develop medium-term spending plans. These detailed allocations would also allow more insights into the Government's plans to deal with fiscal sustainability, public service reform and long term workforce planning.

## **Part 5: Effectiveness**

*Weaknesses previously identified in the budget process include that it did “not take sufficient account of the interaction of the UK budget timetable with the Scottish budget timetable, and that parliamentary influence on the formulation of the budget has been limited”.*

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

The full year budget process has addressed some of these weaknesses, by presenting the Scottish Budget after the UK autumn fiscal event it is set on a more certain basis than when it was presented ahead of the UK autumn fiscal event with inevitable changes to the funding position.

Uncertainties can, however, still remain around the Scottish Government’s funding position. The UK Government announced an increase in employer National Insurance Contributions (NICs) and compensation for UK public sector organisations, however the amount the Scottish Government receives will only be confirmed at UK Main Estimates which will be presented to the UK Parliament after the start of the financial year. As the Scottish Government did not have clarity on NICs funding, it presented the 2025-26 Budget with no assumed NICs funding from the UK Government and no associated spending plans.

The provision of our updated forecasts in May provides the basis for the MTFS to take place in that month. This timing works well to provide an updated view of the Scottish Government position following the spring fiscal statement from the UK Government. However, provisional outturn data is only available in June which means some information presented in May is quickly outdated. For our fully devolved tax and social security forecasts the effects are fairly small as we have regular monthly outturn data from Revenue Scotland and Social Security Scotland. But other funding information is outdated, for example the Scotland Reserve position used in the MTFS is based on the position as presented in the Spring Budget Revision and then an updated position is presented in the provisional outturn. There is no perfect solution to this challenge, as new information becomes available throughout the year but forecasts and the budget position must be assessed at a given point in time.

In August 2024 we published a Fiscal Update alongside our Statement of Data Needs and Forecast Evaluation Report. The Fiscal Update was published because the UK General Election led to us not publishing forecasts in May 2024. In that publication we provided an update on the funding position for the Scottish Government to help inform the budget process. As we received a positive response to that publication, and



because it addresses some of the challenges of outdated information in our May forecasts, we plan to publish a Fiscal Update again in August 2025.

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

The Scottish Fiscal Commission welcomes public engagement in the budget process and is aware of the importance of providing clear material to support this engagement. We have, for example, produced a series of explanatory videos explaining the Scottish Budget.

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

The time between the UK autumn fiscal event and the Scottish Budget is very tight. The written agreement between the Scottish Government and the Finance and Public Administration Committee sets out how the Scottish Budget document will normally be published no more than three working weeks after the publication of the UK Autumn Budget. However this gap provides very little time for the development of forecasts and the Scottish Government to consider policy decisions.

This three working week gap has only taken place once, in December 2017, since the new budget process was introduced. Since then, the gap between UK and Scottish fiscal events has been longer than three weeks. The 2025-26 Budget published in December 2025 had a five week gap between the UK and Scottish fiscal events.

The OECD conducted an independent review of the Scottish Fiscal Commission which was published in March 2025. The review concluded “If the minimum gap of three weeks was imposed, it is likely to lead to more situations where deadlines are missed. Late information limits the SFC’s ability to properly cost new proposals and creates potential reputational risks should the SFC not be able to meet its mandate.”<sup>1</sup>

The OECD recommended “The Scottish Government and the SFC should be proactive in addressing this risk. A key option for alleviating this is through the Scottish Parliament and Government revisiting the gap between UK and Scottish fiscal events to ensure the minimum gap provides sufficient time for Ministers to reach decisions and the SFC to produce high-quality forecasts.”

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<sup>1</sup> Organisation for Economic Cooperation and Development (2025) [OECD Review of the Scottish Fiscal Commission 2025](#)

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

The information published at the time of the Scottish Budget, MTFS, budget revisions, provisional outturn and final outturn could be improved and made more consistent between these publications. The recommendations we made in our August 2024 Statement of Data Needs and set out in our answer to question 2 would all be improvements to the process.

The Scottish Government makes large transfers between portfolios at Budget Revisions. These are zero-sum and reflect that while one portfolio has policy responsibility for an area, in practice another one incurs the spending. For example, delivering a minimum wage for social care workers was a policy of the NHS Recovery and Social Care portfolio but social care is delivered by local government. Therefore, the Finance and Local Government portfolio needs the funding for this policy to pass it on to local government.

In the 2025-26 Budget the Scottish Government decided to baseline some of these transfers, such as the example of delivering a real living wage for social care workers. As these transfers are now in the portfolio that will incur the spending from the outset, it reduces the need for internal transfers during the year. This will make it easier to track changes in the Budget over time. However, some transfers will still take place at Budget Revisions, such as grants to local government from the Education & Skills portfolio to fund pay deals for school teachers.

During one of the 2025-26 Budget debates, the Cabinet Secretary for Finance and Local Government committed to consider if more can be done to simplify the presentation of future budgets beyond what has already been done.<sup>2</sup> We encourage the Scottish Government to go further: any spending which is known at the budget-setting stage to have be transferred later on should be shown in the portfolio which will incur the spending from the outset.

Budget Revisions present the changes in spending plans, the Scottish Government often provides accompanying notes outlining the changes in funding which these spending plans are based on, however these are not provided in a consistent format or easily accessible online.

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<sup>2</sup> Scottish Parliament (2025) [Official Report – Meeting of the Parliament on 30 January 2025](#)