

Budget Process 2025-26: Guidance for Committees

Purpose

1. This guidance aims to support parliamentary committees in relation to their scrutiny of the Scottish Government's Budget 2025-26. 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 involves taking 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 is being developed by the Scottish Government, rather than once it has been published.
4. The BPRG saw the link between equality and budgetary considerations as being key to the budget process, particularly in recognition of equal opportunities being one of the founding principles of the Scottish Parliament. Each Scottish Budget is accompanied by an Equality and Fairer Scotland Statement.
5. The Scottish Government's Medium-Term Financial Strategy (MTFS) and accompanying Scottish Fiscal Commission's (SFC's) Economic and Fiscal Forecasts usually provide context to the pre-budget process. However, this year, these documents have been delayed until after the general election on the advice of the Permanent Secretary. Neither the Permanent Secretary nor Scottish Ministers have provided a new timeframe for their publication. The Permanent Secretary has indicated that "publication on a revised timeline will also allow the Scottish Government to respond to new fiscal positions from an incoming UK Government, recognising that these could be material to the

medium-term fiscal and economic outlooks”. Nevertheless, committees can begin their pre-budget scrutiny at any time.

6. 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 to be published around the end of October/start of November 2024. There is no requirement for pre-budget letters/reports to be copied to the Finance and Public Administration (FPA) Committee.
7. 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 the detailed response received.
8. 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 (usually around late January/early February) on the Budget Bill. The information that SPICe now collects and shares¹ in relation to each committee’s areas of focus for pre-budget scrutiny enables common themes to be identified and reflected in Committee Conveners’ speaking notes for the pre-budget debate. Last year, this approach supported a much more structured and ‘joined-up’ debate
9. 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 to scrutiny

10. 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 national outcomes as part of pre-budget scrutiny is provided in the section below on the National Performance Framework.

¹ [The return of Budget Bingo – key themes in committees’ pre-budget scrutiny for 2024-25 – SPICe Spotlight | Solas air SPICe \(spice-spotlight.scot\).](#)

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).

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.

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 significant constraints on Scotland's public finances.

Supporting documents

Background

11. This section of the guidance goes on to further explore how supporting documents can assist committees in their pre-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.

First Minister's Priorities for Scotland

12. In a [statement to the Scottish Parliament on 22 May 2024](#), the First Minister set out four priorities "that will guide my Government's decisions on policy and budget—the four priorities around which I will work to secure cross-party support for the good of the people of Scotland". The four priorities are---

- *Eradicating child poverty*, the "single most important objective of my Government and Cabinet, because child poverty stunts the progress of

any nation, and it stands in the way of social justice and economic growth”. He announced £16m of investment over two years to expand access to childcare facilities, with six early adopter community projects, which he said would support low-income families to enter into, and sustain, employment.

- *Growing the economy.* The First Minister stated that “from tourism to finance and technology to food and drink exports, we will work to create growth and jobs and to maximise the huge economic opportunities that lie ahead”.
- *Tackling the climate emergency.* The First Minister stated that growing the economy will also be achieved through this third priority, by investing in green energy and infrastructure. He added that “the threat posed by the climate emergency—and the twin crises of climate change and biodiversity loss—is real and present, but so is the opportunity to successfully reach net zero and beyond”.
- *Delivering better public services.* The First Minister highlighted that the Government’s focus will be on supporting the NHS to recover from Covid-related disruption, working with local authorities on a range of issues, including to continue to improve education performance and to deliver sustainable social care, improving the efficiency of the criminal justice system and engaging constructively to expand housing supply.

13. The First Minister also set out “the cumulative effect of the high inflation we have experienced, austerity, and Brexit is placing enormous financial pressure on the resources available to the Government – and will have an effect on the priorities we can deliver”. He further indicated that he would set out the programme for government and the MTFS in June to ensure that the documents “are developed in lockstep, with strategies and approaches aligned”. As noted above, both documents have since been delayed.

Scottish Fiscal Commission’s Fiscal Sustainability Reports

14. The [Scottish Fiscal Commission’s first Fiscal Sustainability Report](#) published in March 2023 continues to provide committees with broader context on the long-term fiscal position for their budget scrutiny. Looking ahead 50 years (the SFC projects spending and funding up to 2072-73), 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”.
15. On 14 March 2024, the SFC published its second fiscal sustainability paper on [Fiscal Sustainability Perspectives: Climate Change](#) which explores “how climate

change could affect the Scottish Government's fiscal sustainability". It considers "the potential effects on Scottish public finances from damage created by climate change, the costs of adapting to a changing environment and taking action to meet Scotland's statutory emissions targets to reach net-zero by 2045", as well as looking at "how the sustainability of the devolved public finances is affected by the interaction of the fiscal framework with the policy choices made by both the UK and Scottish Governments".

16. The SFC argues that "Governments will ... need to encourage private investment in mitigation by using taxation and regulation as levers for change", nothing that while the Scottish Government has fewer levers overall than the UK Government to reduce emissions, it does have the ability to introduce some environmental taxes which can effect behavioural change. It further recommends data improvements to inform its future work on fiscal sustainability and to improve transparency and accountability.
17. From 2024-25, the Scottish Government's Climate Change Assessment of the Budget includes an expanded taxonomy of capital and resource spend, with the aim of improving information on the climate impact of public spending decisions in Scotland. Previous taxonomy categorised capital spending as either low, neutral or high carbon. The new taxonomy data renames low and high carbon spend as positive and negative to show how it aligns with the Scottish Government's intended outcomes and is split to identify low and high impact spend within these categories. However, as noted by SPICe, the document does not allow for an understanding of how this spending will contribute to meeting Scotland's climate targets or what outcomes will be achieved by this spending.
18. The Scottish Government recently announced that it will scrap its annual and interim targets for cutting greenhouse gas emissions. These will be replaced with a system which measures emissions every five years.

Medium-Term Financial Strategy and Scottish Fiscal Commission Forecasts

19. The MTFS sets out the Scottish Government's expectations and broad financial plans and projections for at least five years ahead on a rolling basis and is informed by SFC's Economic and Fiscal Forecasts, which are usually published at the same time. Both documents are intended to inform committees' pre-budget scrutiny.
20. The Scottish Government had previously committed alongside the MTFS to—
 - revisiting multi-year spending plans,
 - publishing its public sector pay policy for 2024-25 (this was published on 30 May 2024 – further details are provided below),
 - publishing an updated infrastructure investment pipeline (IIP),
 - publishing a draft tax strategy for consultation, and

- providing its next update to the FPA Committee on its public service reform programme¹.
21. Many of these documents had originally been due to be published alongside the Scottish Budget 2024-25 and were initially deferred until after the UK Spring Budget 2024.
 22. The Scottish Government had been due to publish its eighth MTFS, accompanying SFC Economic and Fiscal Forecasts, and additional related documents on 30 May 2024, however, this date was pushed back by the Cabinet Secretary for Finance and Local Government to 20 June 2024. As noted above, the Permanent Secretary to the Scottish Government wrote to the Committee on 28 May 2024 advising that, due to the general election, publication of the MTFS and SFC Forecasts will now be further delayed.

Capital expenditure

23. In his Autumn Statement in November 2023, the Chancellor of the Exchequer reaffirmed the UK Government's commitment set out in the Spring Budget 2023 that, from 2025-26, public sector capital spending will be frozen in cash terms. The Office for Budget Responsibility told the FPA Committee in December 2023 that "if such freezes were to be maintained over a long period, we would expect that to have a negative impact on economic growth over the longer term". In its latest Economic and Fiscal Forecasts (December 2023), the SFC stated that it expects capital funding to fall by 20% in real terms between 2023-24 and 2028-29.
24. During scrutiny of the Scottish Budget 2024-25, significant concerns were raised by the FPA Committee regarding how this limited capital spending is being allocated and the extent to which spending decisions were aligned with the Scottish Government's Three Missions. Particular concerns were expressed by witnesses regarding the potential impact of the Scottish Government's decision to cut the affordable housing budget on tackling poverty and improving economic growth.
25. As noted above, the updated Infrastructure Investment Programme pipeline was due to be published alongside the Scottish Budget 2024-25 but was delayed until after the UK Spring Budget and is now due to be published alongside the MTFS at a later date.

Public Service Reform

26. Reform of Scotland's public services and their delivery was a key element of the Scottish Government's Investing in Scotland's Future Resource Spending Review (RSR), published in May 2022, "to improve outcomes and achieve sustainable public finances". The Scottish Government's first biannual update to the Committee of December 2023 on its reform programme references the RSR, stating—

“... if public services are to remain sustainable, reform is both necessary and inevitable.”

27. However, the FPA Committee, in its Report on the 2024-25 Budget, noted its disappointment that limited progress has been made with the programme, adding—

“... without a coherent programme in place, we are concerned that financial pressures will drive a series of uncoordinated cuts across the board, rather than genuine reform aimed at enhancing the delivery of public services.”

28. As noted above, the First Minister, in his statement to Parliament on 22 May 2024, announced that his government’s fourth priority is “to deliver better public services”, with a focus on—

- supporting the NHS to recover from the significant disruption due to Covid,
- working with local authorities across a range of policy areas, including to continue to improve educational performance and to deliver sustainable social care by reducing delayed discharge,
- improving the efficiency of the criminal justice system to deliver for victims, and
- engaging constructively to expand housing supply.

29. Other than referencing the programme for government being central to decision-making in relation to “reform of the health service”, there was no specific mention of public service reform in the First Minister’s speech. Nor was there any reference made to achieving equality other than mention of delivering better public services “as a vital investment in our future health, equality and prosperity”.

Public Sector Pay Policy 2024-25

30. The Scottish Government published its [Public Sector Pay Policy 2024-25](#) on 30 May 2024, setting out “a framework for pay increases for public bodies, and acts as a reference point for all other major public sector workforce groups across Scotland”. It applies to public bodies with settlement dates in the year between 1 April 2024 and 31 March 2025.

31. The foreword states that—

“This pay policy balances flexibility with fairness and affordability, and offers multi-year pay metrics above forecast levels of inflation from 2024-25 to 2026-27. A multi-year, above inflation approach provides certainty for the public sector workforce and an opportunity for Scottish Government, employers and Trade Unions to plan for and transform our public services to improve outcomes for the people of Scotland.”

32. The document explains that public bodies covered by the Policy have the option of following the metric for 2024-25 or agreeing a 2-year or 3-year pay deal in-line with the metrics outlined in the table below.

Pay Metrics Framework			
Year	2024-25	2025-26	2026-27
Pay Metric	3%	3%	3%
Pay Metric	2%	2%	2%
Structure	from April, 1% from January	from April, 1% from January	from April, 1% from January
CPI Inflation*	2%	2%	1.7%

*Source: Average of Bank of England May 2024 Monetary Policy Report and OBR March 2024 Economic and Fiscal Outlook

- 33. It goes on to note that “the cumulative impact of the pay metrics over the 3-year period is 9.3%, compared to forecast CPI inflation of 5.7%”.
- 34. Public bodies have the flexibility to draw up their own pay proposals which reflect their own situations, such as recruitment and retention issues. Employers are “encouraged to consider a progressive pay approach, which may include setting a cash underpin, a higher percentage uplift, or a non-consolidated cash payment”.

National Performance Framework: National Outcomes

- 35. 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”. Currently, there are 11 national outcomes, which are measured for progress against 81 national indicators.
- 36. 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.”
- 37. SPICe regularly produces a [snapshot of how Scotland is performing against national indicators](#), which committees can use to review progress (May 2024). [The SPICe briefing on the NPF and Budget Scrutiny](#) is also 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.
38. 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.
39. The Community Empowerment (Scotland) Act 2015 requires the Scottish Government to undertake a statutory review of the national outcomes every five years. The Government has completed its consultation [and has published its proposed National Outcomes for the next five years](#) for the Scottish Parliament to consider. It is also proposing an updated purpose for the National Performance Framework. The FPA Committee is leading on the scrutiny of these proposed National Outcomes, however some other Committees will also wish to consider evidence related to their areas of interest. A joint call for views has been issued, with responses to be analysed by SPICe, before evidence sessions take place after summer recess.

Financial transparency

40. 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 Transparency².
41. The Scottish Government is now publishing [analysis by classification of functions of Government \(COFOG\)](#) alongside the Scottish Budget, an internationally approved and consistent way of identifying spending under set definitions, for example, health, education, housing, economy, etc. 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.
42. In January this year, for the first time, the SFC published an analysis of [spending trends in the 2024-25 Scottish Budget](#) using more detailed COFOG data provided by the Scottish Government. This showed, amongst other things, that spending on social protection has increased rapidly at the expense of other

² Climate Change and Health and Social Care are the two other Scottish Government Open Government priorities.

parts of the Budget, including health spending, which has not kept pace with inflation over the period of the analysis. SPICe also [publishes a tool setting these numbers in a more user-friendly manner](#), which enables committees – and others – to compare the changes between portfolio, level 2 and level 3 budget lines on a “Budget to Budget” basis (as the Scottish Government does in its main Budget document) as well as a Spring Budget Revision to Budget position.

43. In its blog on [key themes in committees’ pre-budget scrutiny for 2024-25](#), SPICe found that the highest number of recommendations around the Budget related to transparency, specifically fiscal transparency. Committees focussed heavily on the need for more detail on funding commitments and allocations, and detail about where money would be drawn from and distributed. The FPA Committee has also recommended that, “in future years, it would be helpful to see a more detailed explanation of the Scottish Government’s assessment of spend against its overall priorities, along with the trade-offs it has had to make”.

Possible considerations for committees

Under the all-year budget process, committees can begin their pre-budget scrutiny at any time, and they do not, therefore, need to wait until the MTFS and SFC Forecasts are published.

Given the economic and fiscal context, one option would be for committees to concentrate their pre-budget 2025-26 scrutiny on where spending should be allocated to make the most impact on delivering those priorities outlined by the First Minister in his 22 May 2024 statement to Parliament that sit within their portfolios. These four priorities are eradicating child poverty, growing the economy, tackling the climate emergency, and delivering better public services.

Committees may alternatively wish to focus their scrutiny specifically on how limited capital spend within their portfolios should be allocated to achieve the most progress against the First Minister’s four priorities, in particular, growing the economy and tackling the climate emergency.

Depending on their publication date, the MTFS and SFC Forecasts, could be used by committees to provide some context for their pre-budget scrutiny, including assessing the risks around spending in particular areas within their portfolios. Committees could also examine the assumptions made for these forecasts, and the degrees of built-in uncertainty.

Should the Scottish Government revisit multi-year spending plans (as they had previously committed to doing in December 2023), these plans should give committees a starting point to build up a picture of the trajectory of spending across portfolio areas.

Committees may also wish to interrogate relevant additional documents that are expected to be published alongside the MTFS at a later date, including the long-awaited infrastructure investment plan annual report and updated pipeline. Any written evidence gathered during summer recess on how the limited capital spend should be allocated to achieve most impact against the First Minister's four priorities, could be used to inform scrutiny of whether the priorities in the liP are the right ones, assuming it is published during the pre-budget period.

Another option would be for committees to establish the extent to which the Scottish Government's public service reform plans in their portfolio areas have changed with the incoming new First Minister, how the Scottish Government plans to allocate spending to deliver better public services, and how outcomes of these reforms will be measured.

Taking account of the recently published Public Sector Pay Policy 2024-25, committees could examine the implications of its multi-year framework, which offer pay metrics above forecasted levels of inflation, on public sector body budgets within their portfolios.

Committees could explore in more detail the adequacy of spending associated with delivering the First Minister's priorities relating to equalities, 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.

SPICe has concluded that the expanded taxonomy data published alongside the Scottish Budget (referred to above) has only a limited impact on the ability of Parliament to understand or scrutinise the impact of the Budget on Scotland's climate. The main limitation is that the categorisation of spend into positive, neutral and negative does not quantify the impact of this spend on environmental outcomes; while the taxonomy will allow Parliament to track the proportion of spend categorised as positive for the environment over time, it is not possible to establish whether any increase in positive spend will lower emissions, and whether any changes set a course to meet net zero targets.

Committees could assess how this data might be enhanced to be more helpful and transparent. SPICe is able to help support committees to start asking the Scottish Government questions around improving and making this data more transparent.

Committees may wish to scrutinise the impact of spending on the delivery of existing national outcomes, and if and how that spending will change in response to the proposed National Outcomes, relevant to their remits. They could also look at whether any new outcomes in particular areas would make it easier or more difficult to demonstrate how they link with budget decisions

Such scrutiny could feed into any work committees are carrying out in relation to the National Outcomes review.

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 and to explore whether fiscal transparency has improved from previous Budget documentation.

SPICe is also able to help support committees to start asking the Scottish Government questions about comparative COFOG and other information, as part of their budget scrutiny.

Ongoing support

In November 2023, the Financial Scrutiny Unit updated its briefing document on [Key Issues for Session 6](#) which may provide some useful updates for committees to consider in their pre-budget scrutiny.

In December 2023, SPICe published an [overview of common themes found across Scottish Parliament committees' pre-Budget scrutiny letters](#) for the 2024-25 Scottish Budget. SPICe followed this up in January 2024 with its blog '[Accountability in budget scrutiny – do committees influence the Scottish Government's decisions?](#)'

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. Additionally, FPA Committee Clerks and SPICe colleagues are happy to work with committees in helping to shape approaches that best suit individual committee priorities.

**Finance and Public Administration Committee
June 2024**