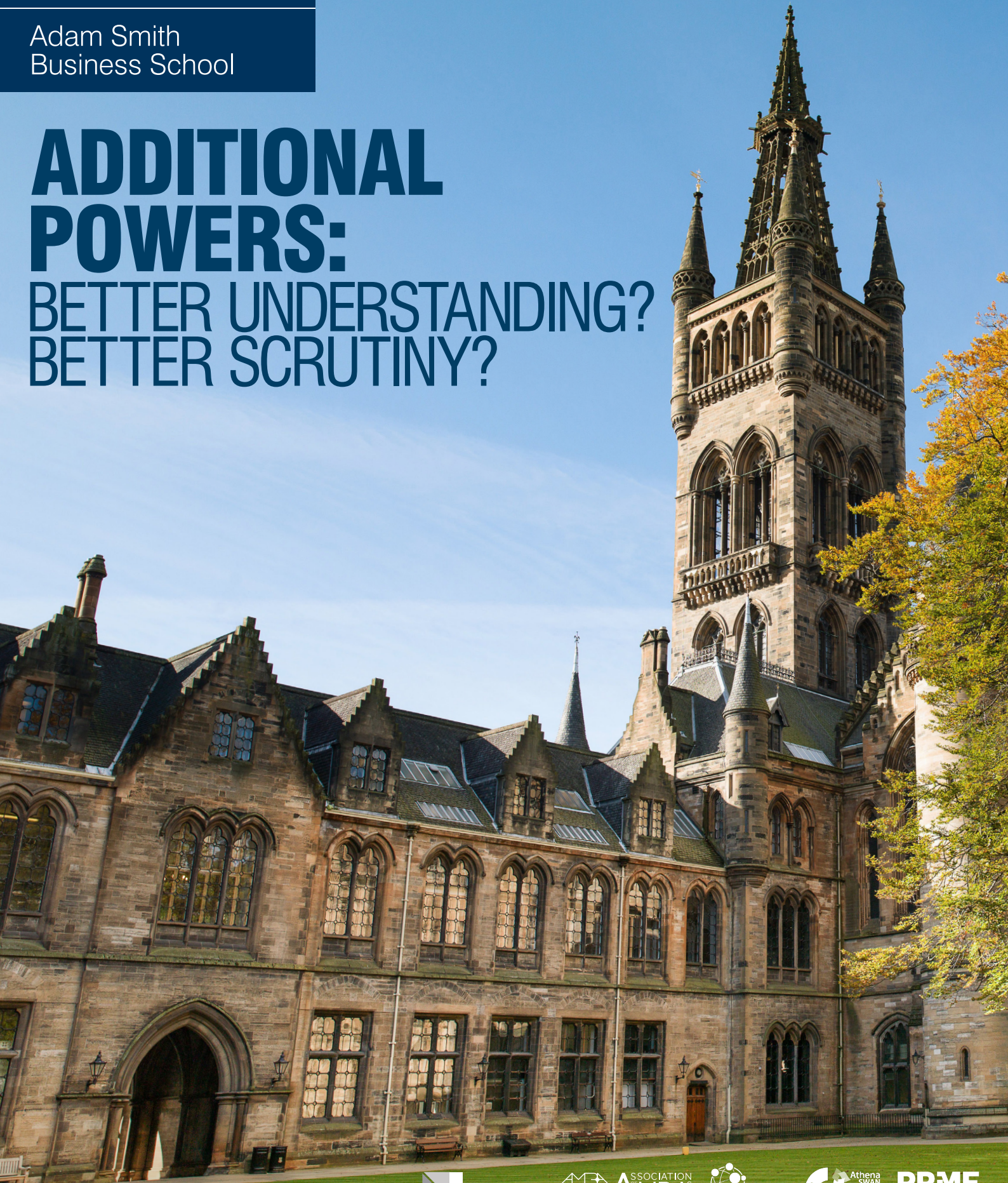




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# ADDITIONAL POWERS: BETTER UNDERSTANDING? BETTER SCRUTINY?





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When Lord Smith published his final report in 2014 on what powers should be devolved to the Scottish Parliament, he stated that with *'new responsibilities over taxes, welfare and borrowing the Parliament's oversight of Government will need to be strengthened'* and that *'a challenge facing both Parliaments is the relatively weak understanding of the current devolution settlement'*.

This research asks whether we have seen the improvements in scrutiny and understanding that the Smith Commission hoped would follow the implementation of the new tax and welfare powers of Scotland Act 2016. There are three distinct areas of work which inform the study:

- A survey of over 1,000 adults to gain insight into the public's understanding of the powers held by the Scottish Parliament
- A survey of MSPs from the 2016-2021 Parliament
- Engagement with 23 key figures involved in the budget scrutiny process in Scotland, including senior MSPs and key officials in Parliament, Government, and other important institutions in the Scottish budget landscape.

### **Public survey**

Our survey asked respondents to identify which government was 'most responsible' for the delivery of public services in devolved and reserved areas.

We found a high level of understanding amongst the public with respect to the original devolution settlement and the areas of responsibility the Scottish Parliament took on board in 1999. For example, respondents understood that the Scottish Parliament was 'most responsible' for the NHS and Education and the UK Parliament 'most responsible' for defence and foreign affairs.

However, when it came to the powers devolved to the Scottish Parliament by Scotland Act 2016, levels of understanding were more limited. For example, despite the Scottish Parliament having passed resolutions over income tax rates and bands, 1 in 4 voters still believe the UK Government is 'only' responsible for income tax in Scotland. Only 1 in 2 voters reported being aware that the Scottish Parliament's powers over taxation had increased. This suggests that there is still some work to do in communicating the new responsibilities of the Scottish Parliament, especially considering the recent tax and welfare related changes.

We found that perceptions of the significance of the transfer of powers in recent years depended on an individual's political preference. For example, only 6% of those who voted yes to independence in 2014 said that the tax powers of the Scottish Parliament have 'increased a lot'.

### ***Survey of MSPs***

Our survey of MSPs found that the majority believed they had a relatively good level of understanding of the Parliament's budget process and powers. However, their assessment of the levels of understanding across the wider MSP group was that levels of understanding were lower.

We found evidence of relatively high levels of understanding relating to the block grant and Barnett formula (both of which have been in place for some time) but lower levels of understanding around some of the newer elements of the budget, like Block Grant Adjustments (BGAs), and borrowing powers for tax forecast errors.

### **Semi-structured interviews with key participants**

#### ***Scrutiny better in some areas, but worse in others***

As one might expect, there was a mix of views on levels of budget scrutiny in the Scottish Parliament. In the main however, the majority view was that – since 2016 – whilst scrutiny had got 'broader' to include taxation, this had arguably been at the expense of 'depth'. Scrutiny has arguably become less detailed and incisive, particularly on the structural challenges facing the public finances in Scotland.

Some of our respondents believed that the quality of debate around tax powers had been high and that the time spent by the Finance and Constitution Committee in understanding the mechanisms of the Fiscal Framework had led to a more informed debate about the implications of tax policy. In contrast, views were expressed that the Parliament had perhaps 'taken its eye off the ball' scrutinising spending decisions. Several of our interviewees remarked that whilst there may have been some high-level discussions about whether a particular portfolio budget had gone up or down, there was a perceived lack of discussion with respect to important structural debates such as the balance of spend or links to outcomes and value for money.

### *Challenges around capacity for scrutiny*

Another area that arose in our interviews was the extent to which those involved in the day-to-day budget process believed that they had sufficient levels of information and time for scrutiny.

Only a minority of MSPs felt there was sufficient time and resource for effective budget scrutiny. Very few of our interviewees had any complaint about the *volume* of information provided by the Scottish Government, Scottish Fiscal Commission (SFC), Office for Budget Responsibility (OBR), UK Government or Scottish Parliament. Indeed, in some instances, the amount of information – with reports often running into 100s of pages – had itself become a challenge.

However, we did hear views that the detail of information provided by the Scottish Government in budget documentation could improve, although developments like the Medium-Term Finance Strategy (MTFS) were welcome. Our interviewees pointed to challenges around limited time series information on spending priorities in key areas, and a difficulty in reading across between draft budget proposals and final Scottish Government accounts (i.e., draft vs. outturn detail at a sufficiently granular level to monitor performance).

Time was also highlighted as a challenge. Recent years have seen truncated time availability for budget scrutiny due to events such as delayed UK Budgets and Covid-19. The expanded remit of the Finance and Constitution Committee in the last session of Parliament meant that issues such as work on Brexit had to be accommodated within tight schedules.

Finally, questions were also raised about whether enough resources had been invested to support effective scrutiny in Scotland. There was praise for the way the Scottish Government had been able to take on new budget responsibilities. But for scrutiny – both within Parliament and amongst the wider commentary, think-tank, and academic community – the level of capacity was still thought to be limited. This led to questions about whether resources for (and interest in) scrutiny had kept pace with the degree of autonomy and responsibility now held by Holyrood.

### *The complexity of Fiscal Framework brings scrutiny challenges*

Everyone we spoke with agreed that Scotland's Fiscal Framework is now incredibly complex, and that this complexity is at the heart of many of the challenges for scrutiny. This complexity also makes general understanding of the budget process difficult.

Each Scottish Budget is now determined by a complex mix of block grants, devolved and shared tax revenues, block grant adjustments, income tax reconciliations, various borrowing

programmes and use of the Scotland Reserve. Decisions taken, or forecast errors, in one year can feed through to budget decisions many years after they first surface.

The effect of this is that a significant amount of effort has had to go into not only understanding the technicalities of the framework, but also scrutinising how the various elements of that framework are operating at a given point in time. There was a consensus amongst interviewees that time devoted to scrutinising the operation of the framework is important but has been crowding-out other priorities such as debates over value for money or outcomes.

### *New budget process has broad support but areas for improvement*

We found support for the recent Parliamentary move to a year-round budget scrutiny system, as recommended by the Budget Process Review Group. The Medium-Term Financial Strategy (MTFS) is perceived as a useful tool, allowing Parliament to consider longer-term budget pressures and opportunities. However, there was a belief amongst many of our interviewees that these reforms remain a work in progress and effort should be made to strengthen them post-Covid.

The creation of the Scottish Fiscal Commission has been seen as a positive step. As well as providing the forecasts underpinning the budget, the SFC have been successful in framing the fiscal and economic context in which the budget is set. The Office for Budget Responsibility (OBR) also received praise for explaining the wider UK context.

However, gaps were identified in the process. We were told of limited progress in linking budget decisions through to outcomes (such as the National Performance Framework). The timing of budgets, and in particular the challenges in recent years around the uncertain (and ultimately late) publication of the UK Budget has caused frustration. Even with efforts to move to year-round scrutiny, the Scottish budget process is inextricably linked to UK fiscal events, both practically and politically. As a result, there was widespread support for the timings of the UK and Scottish fiscal events to be better co-ordinated.

A challenge that several respondents raised was the lack of one independent body providing oversight of the operation of the budget framework for Scotland at any one point in time. Six different institutions have an important role, from the OBR's UK devolved tax forecasts through to HM Treasury and the Scottish Government's agreement on BGAs and the Scottish Fiscal Commission's tax forecasts. In our survey, 64% of MSPs agreed "*that there is a need for a single independent body/entity to oversee the Fiscal Framework – akin to a 'referee'*". Only 14% disagreed.

## *Parliamentary institutions*

The wide remit of the Finance and Constitution Committee in Session 5 of the Scottish Parliament came up time and again as an issue of concern. It was argued that having a single Finance Committee would have freed-up time to discuss budget issues in greater depth but would also remove the more challenging constitutional political debates from a committee that had an important role to play scrutinising existing powers. Only one interviewee was supportive of having these two subjects (finance and the constitution) in a single committee. Most commentators of the Scottish Budget are therefore likely to welcome the development that we will return to a single Finance (and Public Administration) Committee in the current session of Parliament.

Looking at the role and remit of the Finance Committee, we heard some support for going further and separating out the Committee's work to an even greater extent with one element focussed on strategic issues and the operation of the Fiscal Framework itself, and another on day-to-day operations (particularly on spending). We heard there can be a tendency for portfolio committees to focus on their narrow remits which means that the big picture – such as questions over the overall balance of spend, sustainability and public sector reform – can be lost.

A perennial challenge is the high turnover of membership on Committees, with implications for institutional memory, capacity-building, subject knowledge and expertise. When committee membership changes frequently, knowledge built up over time by members can be lost to that committee. More broadly, several of our interviewees expressed concern that levels of interest in budget scrutiny remained too concentrated in a small number of people. If they move-on, either through retirement, failure to be re-elected, re-appointed to another committee, or promoted to ministerial office, that knowledge is lost. Finding independent advisers and witnesses for the Finance Committee also remains a challenge.

Outside Parliament, there have been some developments that help in this regard. For example, recent years have seen a growing number of think tanks and academics interested in devolved fiscal issues. However, numbers remain small, and even modest changes in personnel will reduce input into the budget process.

## Recommendations

The report concludes with some reflections on what improvements might be made to help budget scrutiny in Scotland. More detail is provided at the end of the report. Here we summarise some key points.

### *Sustainable knowledge base*

Given that a complex Fiscal Framework is always likely to be required to underpin the devolved settlement, what can be done to improve the system as it stands?

Further effort is needed to improve levels of understanding of budget issues. This is particularly important given demands for greater participatory budgeting and a recognition of the role of the budget in determining wider wellbeing, equalities, and sustainability outcomes. Ways of doing this could include:

- developing new training opportunities for MSPs and parliamentary staff;
- supporting external research into budget issues by the think-tank and academic 'fiscal' community including drawing upon expertise from outside Scotland; and
- improving the accessibility of budget documentation and analysis of it.

It is of course unrealistic to expect widespread public understanding of the Fiscal Framework. But this makes it even more important that there is a sustainable level of budget knowledge and expertise within a core group of MSPs, parliamentary staff, and academics.

The fieldwork for this study was undertaken prior to the establishment of the new Parliamentary committees. At that time, there was a Finance and Constitution Committee with a crowded remit and wide range of responsibility. Following May's election there will now be a more focused Finance and Public Administration Committee. A dedicated Finance Committee will hopefully be able to build in more time for detailed scrutiny of budget priorities and the sustainability of budget decisions. This should also help support capacity building. A clear message from our interviews was the need for more opportunities to consider strategic, long-term budgetary challenges. This could consider, for example, the long-term questions facing the Scottish Budget, such as demographics, the transition to net zero and economic performance.

### *Information provision*

As highlighted in our early discussion, a number of interviewees spoke of a perceived gap in the budget landscape in Scotland. That is, a tracking of what is actually spent by the Scottish



Government in a given year relative (outturn) to what was set out in the Draft Budget (planned). This leads on to limited analysis of what such spending has delivered, particularly in terms of outcomes.

A useful suggestion therefore might be for the government to commit to publishing a new annual fiscal report before any new Draft Budget. This would be backward looking for the most recent financial year and could cover - i) how much money was spent that year relative to what had been planned for ii) an assessment of what outputs and outcomes have been delivered that measures the success of that spend.

The Scottish Government's annual accounts currently report high-level spend, but limited detail at a more granular level. Such an annual fiscal delivery report could help support greater accountability and understanding of budget issues.

### *Fiscal Framework and budget timing*

As set out above, interviewees highlighted that the number of institutions involved in various parts of the budget process at different points in the year – whilst necessary under this framework – added to the complexity of budget scrutiny. Timing issues were highlighted as a concern too, with OBR and SFC forecasts taking place at different times.

We were offered some practical suggestions about how to address this. One was tasking one institution as being responsible for overseeing the Fiscal Framework on a day-to-day basis and providing regular updates and tracking in-year changes. Another suggestion was for the OBR and SFC to produce a joint document at the time of the Scottish Budget setting out how their forecasts interact with each other, key differences in assumption, and how these were impacting upon final budget totals. We would argue that these suggestions, or others like them, are worthy of consideration in the forthcoming Fiscal Framework review.

An obvious frustration is around the varying timing of the UK Budget and the knock-on uncertainty this creates. Better co-ordination of the UK and Scottish Budget timings frequently came up and, again, is something that should be considered further during the Fiscal Framework review. If the UK Government is committed to a more decentralised fiscal system in the UK, many will argue that its own processes and procedures will need to evolve to reflect that.

Finally, whilst the Fiscal Framework between the Scottish and UK Governments was a key focus of this work, several interviewees raised the lack of a similar 'framework' between the Scottish Government and key partners (especially local government). Exploring what might be possible to aid transparency and to provide greater certainty for institutions beyond the Scottish Government is also worthy of consideration.

## 1. Introduction

It is five years since the transfer of new fiscal powers to the Scottish Parliament<sup>1</sup>. In 2014, the cross-party body Smith Commission was tasked with recommending what powers should be devolved to the Scottish Parliament. It aimed to achieve three objectives<sup>2</sup>:

- *A stronger Parliament within the UK* – including the transfer of ‘major new powers to the Scottish Parliament’ but retained pooling and sharing;
- *A more accountable and responsible Parliament* - for the ‘effects of its decisions and their resulting benefits or costs’; and,
- *A more autonomous Parliament* – with new powers over ‘policy areas such as taxation, welfare, employability, transport, energy efficiency, fuel poverty, and onshore oil and gas extraction’

Following the Commission’s recommendations, a series of new powers were formally devolved under the 2016 Scotland Act<sup>3</sup>. Whilst this covered the legislative arrangements for policy responsibility, the budget arrangements to support this transfer of power were set out in a separate government-to-government agreement, known as the Fiscal Framework (UK Government, 2016). It is this Fiscal Framework, rather than just the new powers per se, that has fundamentally changed the day-to-day operation of the Scottish Budget.

Taken together, these reforms and accompanying new institutional structures, were unprecedented. To be effective, it was recognised that it would require a significant shift in capacity within government, parliament and across civic society in Scotland.

Lord Smith of Kelvin – who led the Commission charged with determining Scotland’s new powers – recognised this. In the foreword to his final report, he noted that with ‘*new responsibilities over taxes, welfare and borrowing the Parliament’s oversight of Government will need to be strengthened*’ and that ‘*a challenge facing both Parliaments is the relatively weak understanding of the current devolution settlement*’<sup>4</sup>.

The goal of this research was to explore if Lord Smith’s goal had been achieved. Have there been the improvements in scrutiny and understanding hoped for? And where have the improvements taken place? Where have there been challenges, and can these be resolved?

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<sup>1</sup> For a discussion of Scotland’s new fiscal powers see Audit Scotland (2019) and Eiser (2020)

<sup>2</sup> Smith Commission (2014)

<sup>3</sup> Scotland Act (2016) - <https://www.legislation.gov.uk/ukpga/2016/11/contents/enacted>

<sup>4</sup> Smith Commission page 6 (op cit)

Ultimately, has this new budget process provided the platform for better scrutiny and led to a more informed debate about financial accountability?

Understanding these issues is important. Not least because the framework itself is subject to review later this year. But to date, commentary on the review has tended to focus upon the governance framework for the review itself (the how) or technical aspects that the review might consider (the what)<sup>5</sup>. There has been less discussion of the ‘why’. We believe that it is vital to first understand if the basic objectives of improved budget scrutiny and financial accountability have been achieved. This will be of value, not just to informing the review itself, but in offering insights for the budget process in Holyrood more generally, particularly given demands around participatory budgeting and how it impacts upon wellbeing. At the same time, in the context of calls for the transfer of further powers – up to and including independence – then it is even more vital that we develop effective budget processes.

To shed light on these issues there were three strands to our project:

1. We conducted a survey of over 1,000 adults to gain an insight into the public’s understanding of budget issues in Scotland.
2. We undertook a survey of MSPs in the 2016 to 2021 Scottish Parliament.
3. We interviewed key figures involved in the budget process in Scotland. This included Members of the Scottish Parliament (including past members of the Parliament’s Finance and Constitution Committee), parliamentary and government officials, members of forecasting bodies, journalists, academics, commentators and leaders from the wider public sector landscape in Scotland. In total, we engaged with 23 individuals.

Each element of our study revealed important information. In section 2 we provide a summary of Scotland’s new budget framework. In section 3 we assess from our survey work, levels of understanding of budget issues in Scotland, before we dig deeper into specific experiences of scrutiny and accountability through our qualitative interviews in section 4. Section 5 offers some reflections and recommendations.

## **2. Scotland’s new budget framework**

Shortly before the 2014 Scottish Independence referendum, the three largest unionist parties making up the ‘Better Together’ campaign promised a substantial transfer of new economic and fiscal powers to Holyrood if voters chose to remain within the UK.

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<sup>5</sup> For a summary of the likely features of the review see Eiser and Roy (2019).

The day after the referendum, the then UK Prime Minister David Cameron announced the establishment of cross-party talks on further devolution. Ten representatives were nominated by the main political parties with elected members in the Scottish Parliament. The Commission published its final report on the 27<sup>th</sup> November 2014.

The Commission recommended a significant transfer of tax powers, with accompanying borrowing powers to help manage volatility that would now become a feature of the Scottish Budget process. The remaining 'block grant' to fund public spending was to remain determined by the Barnett Formula<sup>6</sup> but with recognition that this would need to be adjusted to account for the soon to be devolved tax revenues. New powers over social security were also to be devolved, including those covering disability and ill health. The Scottish Parliament was also to be given the opportunity, in principle, to introduce new taxes and benefits should they wish to do so.

At the time of writing, the process for transferring these new powers remains a work in progress. Some tax powers, most notably over air passenger duty and assignment of VAT, have yet to be rolled out. Full administration of devolved social security benefits will not take effect until near the middle of the decade.

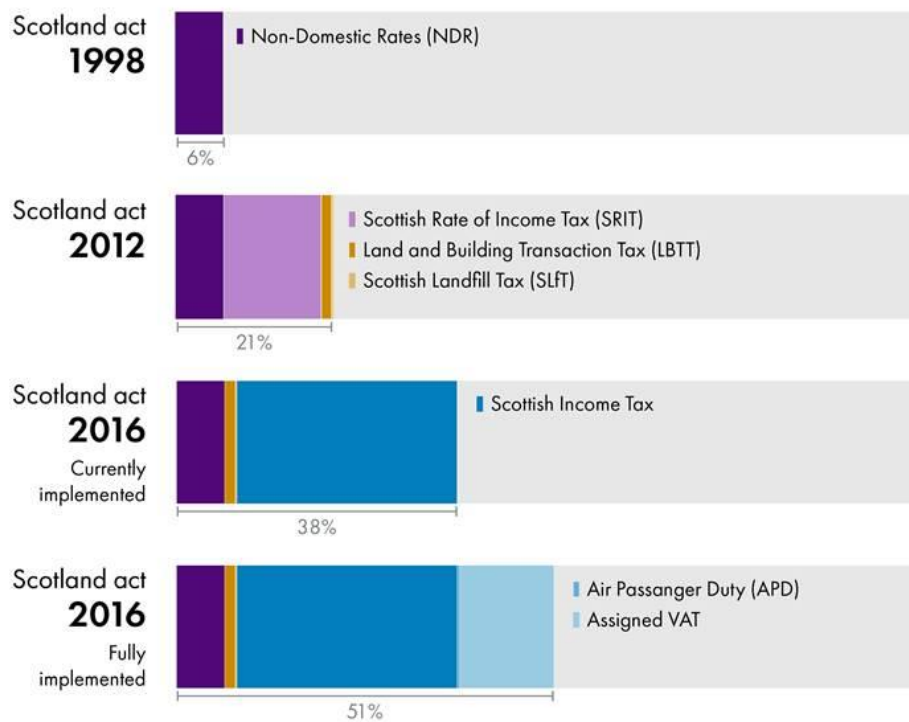
Whilst many taxes paid by Scots remain reserved to the UK Parliament, revenues from taxes set by the Scottish Parliament now account for nearly 40% of the day-to-day devolved budget.

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<sup>6</sup> For an informed review of the Barnett Formula and its implications for public spending in Scotland see Cuthbert (2020).



## How have the tax powers of the Scottish Parliament evolved?

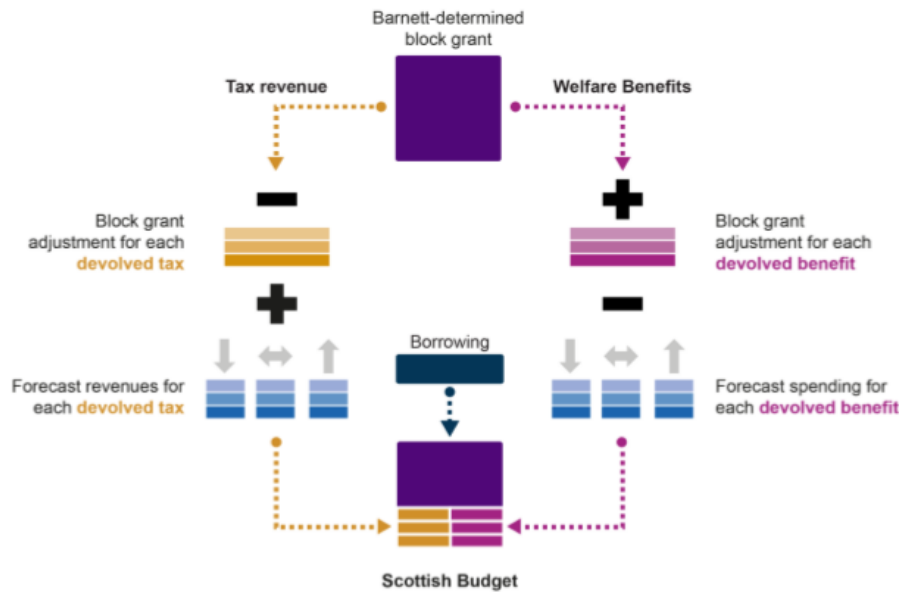


\* All figures based on Scottish Fiscal Commission estimates for financial year 2021/22, except the figure for SRIT which is the 2016/17 figure inflated to 2021/22 prices.

Source: SpICe

The Smith Commission left the details of how these new powers should be operationalised to the two governments to agree. After much debate, an “updated” non-legislative agreement was signed in February 2016 – Scotland’s Fiscal Framework (UK Government 2016) – which set out the detail on how Scotland’s new budget arrangements would work. At the centre of this agreement were procedures to support the transfer of new tax and social security powers, including a series of ‘block grant adjustments’ and rules governing borrowing and the transfer of monies from one year to the next through the Scotland Reserve. New arrangements for analysing Scotland’s economy and public finances were also established. This included the creation of a new independent Scottish Fiscal Commission.

## How the Fiscal Framework determines the Scottish Budget



Source: SPICe

The nature of the cross-party group tasked with recommending new powers for devolution, coupled with some of the underlying features of devolution in the UK (such as the large asymmetries in levels of autonomy across devolved nations and English regions), has meant that the final framework now in operation is “complex and largely untested” (OECD 2019). There are no international precedents for Scotland’s exact mix of fiscal devolution.

Recognising the complexity of the new framework and scale of the powers transferred, there have been changes in the day-to-day operation of the budget process at Holyrood to help aid understanding and scrutiny<sup>7</sup>. Chief amongst these was a review of the Scottish Budget process which reported in June 2017 (Scottish Parliament 2017). It concluded that the Parliament should move to year-round scrutiny, a position that was formally agreed to by both the Scottish Parliament’s Finance and Constitution Committee and the Scottish Government in May 2018 (Scottish Parliament 2018). The objectives of this new process were to:

- To have a greater influence on the formulation of the budget;
- To improve transparency and raise public understanding and awareness of the budget;
- To respond effectively to new fiscal and wider policy challenges; and,

<sup>7</sup> For a summary of the new Scottish Budget process see Burnside (2018).

- To lead to better outputs and outcomes as measured against benchmarks and stated objectives.

The following visual sets out the annual budget process now in place and the key documentation that informs each phase.

*The Scottish Budget timetable*



Source: SpICe

Alongside this, the Scottish Government now publishes an annual Medium Term Financial Strategy (MTFS) which aims to set out the longer-term strategic context for the Scottish Budget, including highlighting the sustainability of current spending commitments and levels. Three MTFS' have been published so far<sup>8</sup>.

The level of change, and the pace at which it has occurred, cannot be overestimated. In a few short years, the Scottish Parliament has evolved from a legislature largely focussed upon how money is spent to one that is responsible too for some of the monies raised.

<sup>8</sup> The most recent MTFS was published in January 2021 (Scottish Government 2021).

Transitioning to any new fiscal regime is not straightforward. In the Scottish context, many of these challenges have been exacerbated by the wider context of Brexit and COVID-19 which has tested Scotland’s devolved funding frameworks and intergovernmental relations between London and Edinburgh<sup>9</sup>. Brexit and COVID-19 have also, by necessity, taken up a significant degree of parliamentary time, which ordinarily might have been allocated to budget scrutiny. These are not normal times, which has made the transition to this new fiscal regime and budget process even more challenging.

For all the discussion that will follow in this report around areas of challenge and for improvement, it should be noted that there has been a largely smooth transfer of fiscal powers to the Scottish Parliament. This is by no means an easy achievement as was noted by several external interviewees –

*“The Scottish Government have done well to get their capacity up – and been willing to take tough decisions to ensure effectively delivery, particularly around Social Security. This is very welcome.” Public Servant 1*

Given all of this, what levels of understanding of this new framework now exist in Scotland? This is key to understanding the context in which these powers have operated and is the question to which we now turn.

### **3. Levels of understanding of new budget framework**

To assess levels of understanding of Scotland’s new budget framework we undertook two surveys – a survey of the public and a survey of Members of the Scottish Parliament. We discuss findings from both here.

#### *Survey of public understanding*

We were initially interested in assessing the level of understanding amongst the public regarding Scotland’s budget framework. Has it galvanised voters in the way that might have hoped when the powers were first transferred?

To do that, we worked with YouGov to design a survey where we received 1,100 responses. The survey was in the field 4<sup>th</sup> – 8<sup>th</sup> March 2021. Several points are worth highlighting.

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<sup>9</sup> Later this year, Bell et al. (2021) will report on their review into Scotland’s Fiscal Framework and how it operated in the context of COVID-19.



In Question 1, we explored levels of understanding of key spending areas from the original 1999 devolution settlement. Overall, we found high levels of understanding amongst voters in this area. We concluded this from the responses we received from asking a series of questions around which government was ‘most responsible’ for the delivery of devolved public services (e.g., the NHS and education) and reserved public services (e.g., defence and foreign affairs).

**Question 1:** *Thinking about the current devolution settlement in Scotland. Which Government do you think is currently most responsible for...?*

<b>The National Health Service (NHS)</b>	Scottish Government	<b>72</b>
	UK Government	<b>9</b>
	Both equally	<b>7</b>
	Don't know	<b>12</b>
<b>Schools</b>	Scottish Government	<b>83</b>
	UK Government	<b>3</b>
	Both equally	<b>3</b>
	Don't know	<b>11</b>
<b>Defence and National Security</b>	Scottish Government	<b>16</b>
	UK Government	<b>62</b>
	Both equally	<b>8</b>
	Don't know	<b>14</b>
<b>Policing</b>	Scottish Government	<b>77</b>
	UK Government	<b>6</b>
	Both equally	<b>5</b>
	Don't know	<b>12</b>
<b>Criminal justice (courts, prisons and sentencing)</b>	Scottish Government	<b>73</b>
	UK Government	<b>9</b>
	Both equally	<b>6</b>
	Don't know	<b>12</b>
<b>Foreign affairs and international relations</b>	Scottish Government	<b>7</b>
	UK Government	<b>68</b>
	Both equally	<b>10</b>
	Don't know	<b>15</b>

*Source: YouGov survey of 1,100 adults (March 2021)*

For example, we found that over 70% of voters correctly identified the Scottish Government as being ‘most responsible’ for the NHS in Scotland. A similar figure (67%) was found for criminal justice, with even higher figures obtained for Policing (77%) and schools (83%). Likewise, 68% of voters correctly identified that it is the UK Government ‘most responsible’ for foreign affairs and international relations. The lowest figure was found for defence, where just under two-thirds of voters (62%) correctly identified the UK Government as being ‘most responsible’.

Our survey work found no appreciable difference in these results when split into party allegiance. We did, however, find that levels of knowledge were lowest amongst younger voters. For example, we found that only 49% of votes aged 16-24 identified the UK Government as being most responsible for defence policy, compared to 70% of those over 50. Perhaps surprisingly, amongst younger voters, only 67% believed that it was the Scottish Government ‘most responsible’ for schooling with just 54% aware that they were also ‘most responsible’ for the NHS in Scotland.

***Question 2:** Thinking about the current fiscal devolution position in Scotland. Who do you think is currently most responsible for the following in Scotland...?*

<b>State pension</b>	Only Scottish Government	7
	Only UK Government	55
	Both Scottish and UK Governments	19
	Don't know	19
<b>Unemployment benefits</b>	Only Scottish Government	11
	Only UK Government	44
	Both Scottish and UK Governments	25
	Don't know	20
<b>Housing benefit</b>	Only Scottish Government	26
	Only UK Government	27
	Both Scottish and UK Governments	23
	Don't know	24
<b>National Insurance</b>	Only Scottish Government	8
	Only UK Government	56
	Both Scottish and UK Governments	17
	Don't know	19
<b>Disability benefits</b>	Only Scottish Government	13
	Only UK Government	38
	Both Scottish and UK Governments	26
	Don't know	23

<b>Income tax</b>	Only Scottish Government	<b>22</b>
	Only UK Government	<b>25</b>
	Both Scottish and UK Governments	<b>35</b>
	Don't know	<b>18</b>
<b>Corporation tax</b>	Only Scottish Government	<b>8</b>
	Only UK Government	<b>49</b>
	Both Scottish and UK Governments	<b>18</b>
	Don't know	<b>25</b>
<b>VAT</b>	Only Scottish Government	<b>5</b>
	Only UK Government	<b>60</b>
	Both Scottish and UK Governments	<b>16</b>
	Don't know	<b>19</b>
<b>Taxes on North Sea oil and gas</b>	Only Scottish Government	<b>9</b>
	Only UK Government	<b>47</b>
	Both Scottish and UK Governments	<b>20</b>
	Don't know	<b>24</b>

*Source: YouGov survey of 1,100 adults (March 2021)*

Turning to social security and taxes, we found that things get more complicated, particularly over the powers newly devolved to the Scottish Parliament. In Question 2, we explored levels of understanding of key tax and social security areas. Interestingly, we found a much greater variation in levels of understanding. For example, even in areas that are entirely reserved, such as North Sea oil and gas taxation and unemployment benefit, less than 1 in 2 voters correctly identified the UK Government as being ‘most responsible’ for the setting of policy in this area.

On the most important area of tax devolution in recent years, the picture appears particularly confusing. Take income tax as an example. Technically, income tax is a shared tax with both the UK and Scottish Governments responsible, in some way, for how much income tax is paid by taxpayers in Scotland. However, nearly 1 in 5 voters do not know who is most responsible for income tax in Scotland (this figure rises to 37% amongst 16–24-year-olds), with 1 in 4 still believing it is the UK Government that is ‘only’ responsible.

Interestingly, this is the one area where confusion does not seem to differ depending upon levels of interest in politics and public policy. For example, we found that 26% of respondents who would classify themselves as having ‘high political attention’ believe that ‘only’ the UK Government has responsibility for income tax in Scotland.

In a third question, we explored the extent to which voters were aware that the Scottish Parliament’s tax powers had increased over the last 10 years.

**Question 3:** *Over the last 10 years, do you think that the Scottish Parliament’s powers over taxation has increased or decreased? Or has it not changed?*

	Increased a lot	12
	Increased a little	39
	<b>Total increased</b>	<b>51</b>
	Decreased a little	3
	Decreased a lot	1
	<b>Total decreased</b>	<b>4</b>
	Don’t know	29
	Not changed	15

*Source: YouGov survey of 1,100 adults (March 2021)*

Again, somewhat surprisingly, despite all the debates on devolution, only 1 in 2 voters reported being aware that the Scottish Parliament’s powers over taxation had increased. Whilst few of our respondents answered that they thought they had decreased, the large number of ‘Don’t Know’ and ‘Not changed’ responses suggest a relatively lower level of understanding of recent fiscal devolution than might be normally assumed.

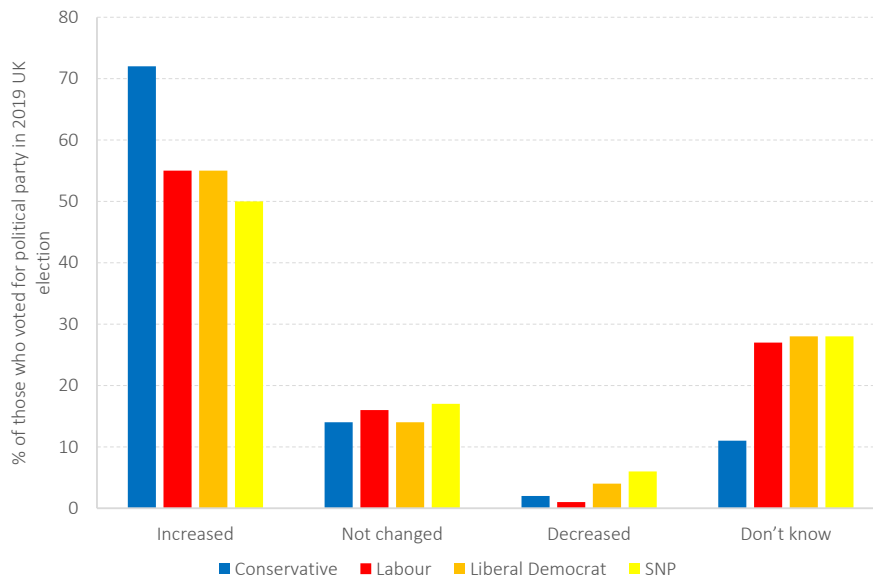
All of this is consistent with recent evidence from a survey sponsored by the Institute of Chartered Accountants in Scotland which showed that 33% of those surveyed were unaware that the Scottish Parliament had made changes to the tax system since 2015; 26% were ‘not aware of’ the Scottish Parliament’s powers to make changes to income tax rates in Scotland; and 25% did not know that the Scottish Parliament had powers over Council Tax, Business Rates and Land and Buildings Transaction Tax<sup>10</sup>.

Interestingly, we found a greater number of voters who supported the Conservatives in the 2019 UK General Election as responding that they thought that the powers of the Scottish Parliament in relation to taxation had increased – Figure 1. The gap was most significant for those that thought that the powers had ‘increased a lot’. This was the response amongst 35% of Conservative voters compared to just 4% of SNP voters who thought the same.

<sup>10</sup> <https://www.icas.com/news/one-third-of-scots-unaware-of-holyroods-tax-changes>



**Figure 1:** Do you think that the Scottish Parliament’s powers over taxation has increased or decreased (by 2019 UK General Election voter)



Source: YouGov survey of 1,100 adults (March 2021)

### Survey of MSPs

Following on from our survey of the public to ascertain wider levels of understanding of Scotland’s budget framework – and the tax and spending powers of the Scottish Government and Scottish Parliament – we conducted a survey of Members of the Scottish Parliament (MSP).

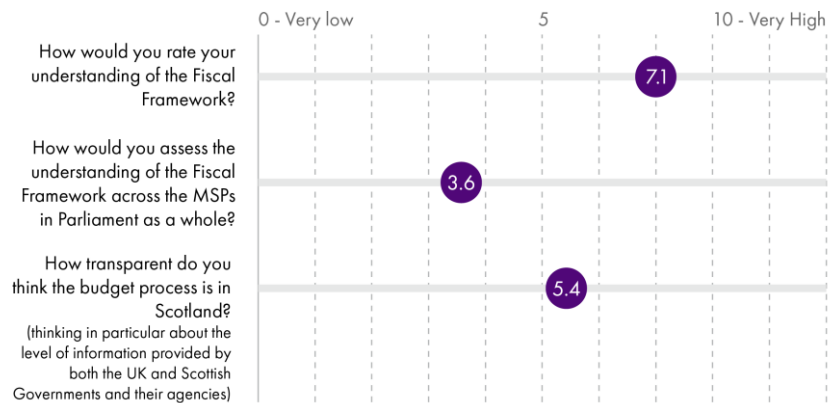
Our aim here was to explore the extent to which particularly important details of Scotland’s budget framework were understood by elected members in Holyrood.

We sent the survey to MSPs just before the end of the 2016 to 2021 parliamentary term. The survey was in the field during Spring 2021. We received 27 responses. All responses were anonymised.

Our aim with the survey was twofold. Firstly, to ascertain MSPs reflections upon both their own level of understanding of the new budget framework, and that of their peers. Secondly, to explore with them aspects of the framework that have helped/might help effective scrutiny of the Scottish Budget. We explore this second set of issues in section 4. For now, we focus upon levels of understanding.

To start, we asked MSPs to score – 1 to 10 – both their own levels of understanding of the Fiscal Framework and their perceptions of levels of understanding across the parliament more broadly. On the same basis, we also asked them to mark levels of transparency.

**Figure 2: MSPs reflections on understanding of Scottish budget process**



Source: University of Glasgow, University of Strathclyde & SpICe survey (2021)

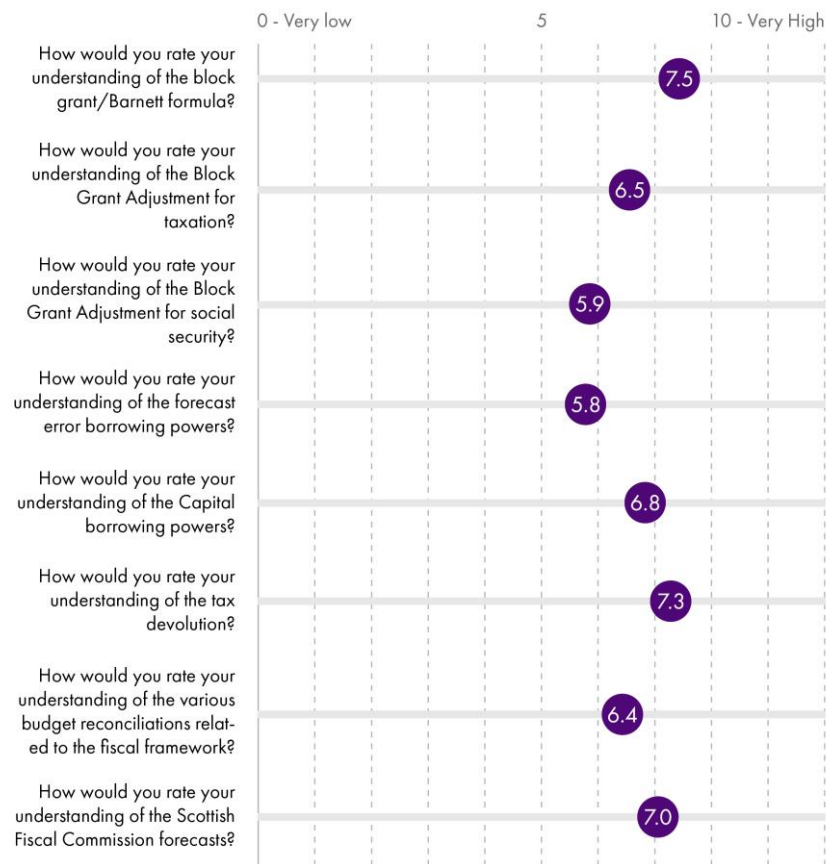
We found that the majority of MSPs who we surveyed believed that they had a relatively high level of understanding of the budget process for the Scottish Parliament – Figure 2. We found that their assessment of levels of understanding amongst their peers was weaker. An index score of 3.6 (on a scale of 1 to 10, where 10 is an excellent understanding) is relatively low.

We need, of course, to avoid reading too much into such a finding. For example, this may well reflect the increased likelihood that an MSP would complete this survey where they were more generally engaged with these issues than otherwise. But it also might reflect a general concern from those engaged about levels of understanding and engagement on budget matters.

Exploring their views on the level of transparency in the overall budget process, we found that while the average score from MSPs was neutral, the spread of indexed scores around this mid-point was relatively limited (suggesting no strong views that transparency was very good, or transparency was very bad).

We next tried to unpick this level of understanding by asking the same question on levels of understanding but, this time, focussing on aspects of the budget process in Scotland. Figure 3 presents our findings.

Figure 3: MSPs reflections upon detail of Scottish budget process



Source: University of Glasgow, University of Strathclyde & SpICe survey (2021)

Interestingly, we found some variation in responses to different aspects of the budget process. Perhaps somewhat unsurprisingly, the highest scores were found for the block grant and Barnett formula. We say unsurprisingly, given that this has been the main mechanism to fund public spending in Scotland for nearly fifty years.

The newer developments receive lower scores. One exception were levels of understanding of the Scottish Fiscal Commission's (SFC's) forecasts. As we discuss below, the SFC have invested considerable time in communicating their analysis over the last few years. Marginally lower scores were found for the more complex aspects of the new budget process. This includes the mechanisms for adjusting the block grant to reflect the transfer of new spending and tax powers and borrowing powers for forecast error.

As a final aside, we asked several public servants working across the UK for their reflection on levels of understanding of Scotland's new budget framework outside of Scotland. At best, understanding of Scottish Budget issues, and the wider Fiscal Framework, in Westminster was 'limited'. Again, and interestingly, those we spoke to in public service roles commented that

while those with direct responsibility in these areas were very knowledgeable, there was a sense that levels of understanding more broadly across the public sector in Scotland and the UK was lower.

### *Discussion*

So, what can we conclude from our research into levels of understanding of the budget process in Scotland? A number of interesting insights stand out.

First, it seems that whilst there is a high level of understanding of the original public spending elements of devolution – that is who is responsible for health and education etc. – there is still work to be done to raise awareness of the recent tax devolution changes for the Scottish Parliament. The degree of confusion around who is responsible for income tax is a clear example of that challenge.

Second, perceptions about how significant the transfer of powers has been in recent years seems to depend upon political voting preference. This appears to be linked to the constitutional question. Indeed, just 6% of those surveyed who voted ‘yes’ in 2014 said that the tax powers of the Scottish Parliament had ‘increased a lot’.

Third, MSPs typically believe that they have a good understanding of the budget process in Scotland, but many believe that the level of understanding more broadly across the Parliament is weaker. This includes the more complex areas such as the operation of the block grant adjustments and borrowing powers. It is to budget scrutiny and financial accountability that we now turn.

## **4. Budget scrutiny**

To gain an understanding of changes to budget scrutiny, and whether it has improved since 2016, we surveyed the MSP group in the Scottish Parliament to gather their general reflections. We discuss these results here.

Our principal approach to better understand levels of scrutiny (and thereby financial accountability) was to engage directly with key individuals involved in the budget process in Scotland. This included senior MSPs (including from the then Scottish Parliament’s Finance and Constitution Committee), Parliamentary officials, senior civil servants, members of independent forecasting bodies, and commentators, journalists, and academics from the wider public policy community in Scotland. The themes that make up the sub-sections in this part of the report were drawn from an analysis of these discussions. We have included a general

reference to their background, but their details are anonymised. Note a public servant does not necessarily mean a member of the Scottish or UK Government but includes other bodies such as parliament or broader public sector etc. To aid interpretation, we have included specific quotes from individuals, however the same points will have been made – albeit with a different turn of phrase – across many of our respondents. The write-up reflects our broad assessment of the data gathered. Whilst there will be some points where some of our interviewees will have had a different opinion our aim was to provide a balanced summary.

We identify five key themes.

### *Scrutiny has got better in some areas but weakened in others*

We firstly explored to see if there is a consensus on whether budget scrutiny, by Parliament and external bodies, has become more effective post 2016 fiscal devolution. On balance, our findings are mixed.

Our first data point was our survey of MSPs in the Scottish Parliament. Here the balance of opinion was that scrutiny had ‘got a little better’ or ‘stayed the same’. A smaller minority thought that it ‘had got a lot better’ or had ‘got worse’. Our second data point comes from our interviews with key officials and Members of Parliament who are involved in the budget scrutiny process on a day-to-day basis. There were mixed views.

Some were negative. For example, we were told –

*“Scrutiny is shallower and more cursory than when we had a simpler budget”* MSP 1

*“Financial accountability has become broader, but also more superficial”* MSP 2

Others, whilst recognising challenges, were more positive –

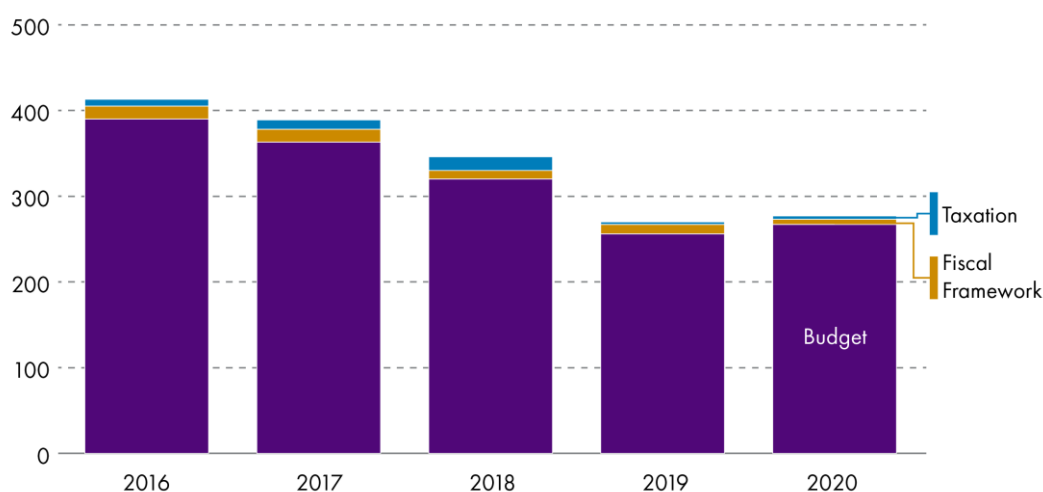
*“The level of accountability has improved marginally. There is a better understanding of the mechanisms and parliament is pressing more on budget issues showing that learning is happening and getting to grips with things, particularly over last two years. But big question is whether or not they are focussing upon the right things. Lots of focus on the intricacies of the framework, but are they asking the big questions – e.g. about economic performance?”* Public servant 3

*“Progress has been made and this is welcome. But it remains a little frustrating; the hope had been that [the] Smith [Commission’s reforms] would have moved us much further forward, so much work still to be done.”* MSP 7

There was a general recognition that policymakers now understand the need “to now focus upon both sides of the balance sheet” Public servant 8, and that this was seen as a positive.

A third data point we looked at was trends in metrics collected by the Parliament regarding the number of Parliamentary Questions on budget issues. Clearly volume is not perfectly correlated with quality. But it offers an insight into how important budget issues have become. Interestingly, we find no appreciable increase in activity regarding budget scrutiny within parliamentary debates and timetables even despite a move toward trying to implement ‘year-round’ scrutiny of decision-making. For example, a search of written and oral parliamentary questions finds that these have fallen in frequency since 2016. Figure 4.

**Figure 4:** Written and oral Parliamentary questions related to “Budget”, “Fiscal Framework”, “Taxation” by year since 2016



Source: SpICe (2021)

Reflections from our interviews appears to back this up about parliamentary debates. A senior public servant told us that “surprisingly, the number of parliamentary questions on the Budget has not really increased. We were expecting more” Public servant 6. Another told us that across the wider public policy community in Scotland “whilst there is more interest in the budget at a strategic level, there’s little evidence that there has been a step change in strategic thinking around financial accountability.” Public Servant 1

Moving on from general reflections to more specifics, several interviewees were of the view that the quality of scrutiny of tax policy decisions had been high. To support its decisions upon income tax policy for example, the Scottish Government published a significant amount of documentation outlining their approach on rates and bands, the potential impacts of decisions and their arguments behind such choices. There is clear evidence from our interviews that this, coupled with the work of the Scottish Parliament’s Finance and Constitution Committee to



dedicate significant time to tax policy, led to an informed debate about tax policy and the Scottish Budget. For example, one MSP told us –

*“In many ways, I have been surprised by the high quality of scrutiny of tax powers. Clearly, we have a different view of how the policies should be used, but the debate has been a high standard. In addition to the outputs of the Scottish Government, opposition parties have stepped up to the mark and articulated where they would have taken different choices. The result has been a quality debate, exactly as Smith would have intended.”* MSP 3

In contrast, we picked up general concerns about analysis of spending decisions. *“We’ve taken our eye off the ball on holding the government to account on spending.”* MSP 1 There was no clarity over why this might be the case. Several interviewees expressed the view that a reason for this might be a lack of agreement over which committee should take the lead on such scrutiny. Was this a role for the Finance and Constitution Committee or portfolio committees?

At the same time, we found evidence that the scrutiny that did take place on spending, with some exceptions, tends to be ‘high-level’ – for example, is a particular portfolio spending line going up or down and by how much? Important structural and more detailed debates, about the balance of spend and links to outcomes, are more limited. This was a view shared not just within Parliament but within the wider public policy community. For example, one interviewee told us –

*“So much of the time has been devoted trying to scrutinise the mechanics of Scotland’s new budget framework, that debates are missing the bigger picture covering the structural economic, demographic, social and environmental issues that will stretch the sustainability of the Scottish Budget in the long-term or the track-record of policymakers to deliver the change that is required. Evidence sessions often reflect that”.* External commentator 2

This was shared across the broader public sector too –

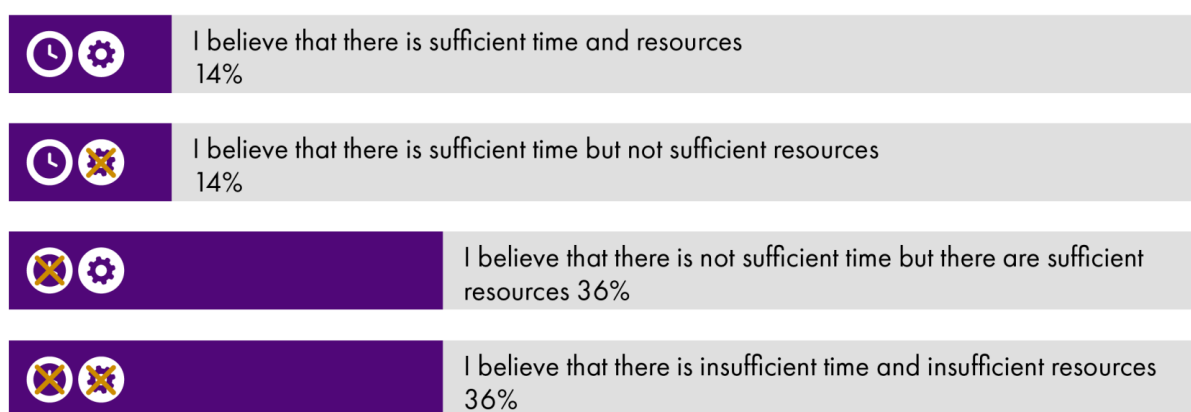
*“The transfer of powers has not had quite the effect on debates around accountability that we might have expected. There had been an expectation that it might incentivise debates on policy and economic performance, but we haven’t really seen that yet.”* Public servant 8

### Capacity to scrutinise the budget

A second area that we explored was the extent to which key people involved in the budget process believed that they had sufficient levels of information, and crucially time, for effective budget scrutiny.

To research this, we turn first to our survey of MSPs. We found only a minority believe that is sufficient time and resource available. Around 1/3 believed that there was both ‘insufficient time and insufficient resource’ – Figure 5. Only 14% believed that there was sufficient time and resource.

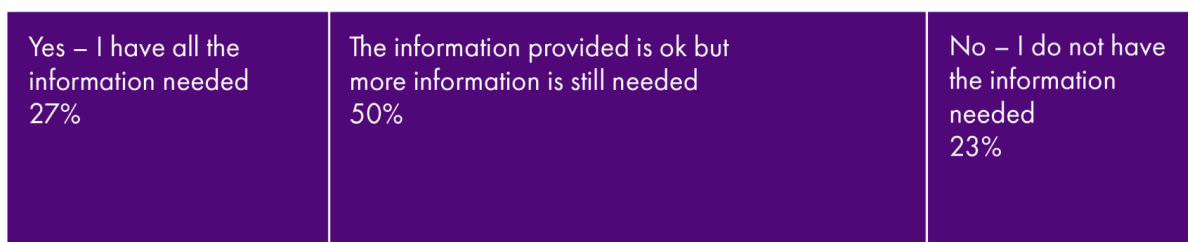
**Figure 5:** Do you believe that there is sufficient parliamentary time and resource to effectively scrutinise the Scottish Budget and Fiscal Framework?



Source: University of Glasgow, University of Strathclyde & SpICe survey (2021)

We then asked a question about the *quality of information* provided. In the main, MSPs believed that they were being provided with significant amounts of information that was helpful, but “more information is still needed” – Figure 6. From our interviews, we identified an appreciation of the work of organisations such as the Scottish Fiscal Commission and Audit Scotland, and civil servants, in helping to provide analysis and insight to support better understanding and scrutiny. Moreover, the intention behind initiatives such as the Scottish Government’s Medium Term Finance Strategy was welcomed.

**Figure 6:** Do you believe that you have enough information to effectively scrutinise the annual budget process?



Source: University of Glasgow, University of Strathclyde & SplCe survey (2021)

However, we did find one relatively consistent criticism. That was that the spending information provided by the Scottish Government in its own annual budget document could be improved. The annual budget document was singled as being “*a bit of a problem*” MSP 2 and “*impossible to find what you are looking for*” Public servant 7.

Particular issues flagged to us centred upon challenges around producing time series of spending priorities, and the lack of read-across between draft budget proposals and final Scottish Government accounts (both linked just to the Scottish Government and more broadly ‘whole of government accounts’). For example, one MSP told us that “*it is frustrating that basic information on how much the government has spent in a particular area – in order to understand how an outcome has been arrived at – cannot be ascertained quickly. Individual budget lines do not always provide the clarity needed.*” MSP 3

Similar, the use of flexibilities within the Scottish Budget process itself, aside from the broader Fiscal Framework, was also cited as a challenge for scrutiny –

*“The ongoing use of flexibilities – e.g., allocations to some budget lines such as Scottish Water or use of the NDRI pool – and the freeing up resources to do ‘budget deals’ makes it difficult to find out what is going on and erodes confidence in system.”*  
Public Servant 1

Several MSPs highlighted that a challenge was the lack of ability to see the “thought process” that underpins decisions. What is typically presented to MSPs at each budget, and during Parliamentary Committee hearings and debates, is the final worked-up policy. There is little opportunity to explore the steps that have led to a decision being taken (such as deliverability constraints, financial risks etc). The move to year-round budget scrutiny aims to help achieve this, but it remains a work in progress –

*“In trying to hold government to account, we don’t know the decision-making process – so we get the decision, but not the reasoning, and without that reasoning how can you scrutinise the decisions or propose alternatives?”* MSP 5

In a point that we develop further below, a common concern covered the level of time available to effectively scrutinise the budget –

*“The biggest constraint is a lack of time. Efforts to create a year-round budget scrutiny process haven’t really worked so far, everything still gets squeezed into a very short timetable, made all the more difficult by recent decisions of the UK Government to delay their budget.”* MSP 4

In part, this is due to the breadth of the Finance and Constitution Committee remit, but also the particular importance of issues around Brexit which dominated much of its workload –

*“In practice, faced with such a broad remit MSPs could only ever hope to focus upon one or two budget items over the course of the Parliament. The focus upon the Fiscal Framework itself made sense, but that meant that other things fell by the way-side.”*  
Public servant 2

A final reflection on overall levels of scrutiny related to the level of resources that Parliament has at its hand. We picked-up strong appreciation for the work of Committee Clerks, the independent advisers to committees and the Financial Scrutiny Unit in the Scottish Parliament Information Centre. But there was also the reflection that the level of resource had arguably not kept paced with the degree of autonomy. Comparisons were made with the Scottish Government, which has invested significantly in new personnel including a new Director General for Exchequer, or the newly established Scottish Fiscal Commission (who have grown to over 20 members of staff), on levels of resource. Many of our respondents noted that the gap between resources available to government and parliament had grown wider. Demands on parliamentary and officials and eternal commentators time was also highlighted –

*“The Budget is published on a Thursday and by the following Tuesday we’re meant to have digested hundreds of pages of detailed economic and financial forecasts and budget decisions for witness sessions.”* MSP 4

The relatively small number of journalists in Scotland in broadcast and print media now left covering detailed public policy work was also highlighted as a constraint.

In summary, we conclude that – at least at first glance – whilst there have been areas where scrutiny has improved, it would be hard to argue that there has been the step-change that the Smith Commission might have hoped for. In saying that we are reminded that this reflection on the challenges of effective scrutiny is not unique to Scotland –

*“Debates over accountability of some aspects of the budget improved but because of Brexit and the UK Government shifting budget dates and providing little time or*

*information about budget figures, then budget scrutiny has suffered. This is a wider UK problem which influences every area of public representation.” MSP 6*

### *The complexity of the framework has posed challenges to scrutiny*

Following on from general thoughts upon scrutiny, a key reflection – universal to everyone interviewed – was the acknowledgement that the framework itself is hugely complex. For some, it is this basic design that acts as a barrier to scrutiny on occasion.

All interviewees acknowledged the significant work undertaken to improve transparency around the technicalities of the framework, by the Scottish Government, the SFC, the Scottish Parliament, Audit Scotland, the UK Government and the OBR –

*“We have taken on explicit responsibility to lead on demystifying Scotland’s Budget framework. A lot of work/outputs/report has sought to explain and educate on the Fiscal Framework. This might not ideally be a good use of our time, but we see it as important.” Public servant 5*

Each Scottish Budget is however, now determined by a complex mix of block grants, devolved and shared tax revenues, block grant adjustments, income tax reconciliations, different borrowing programmes and use of the Scotland Reserve. Decisions taken in one particular year or forecast errors can feed through to budget decisions many years after they first surface. Furthermore, there is no one institution responsible for each different element of the budget framework, with HM Treasury, HM Revenue and Customs, the Department for Work and Pensions, the Scottish Government, Scottish Fiscal Commission, and the Office for Budget Responsibility all having a role. Such issues were not really discussed in detail during the transfer of powers. Indeed, one official told us –

*“The principal challenge, which I’m not sure that anyone fully appreciated back in 2014 through 2016 as these powers were being debated, is the complexity in the framework itself. Difficult to explain and difficult to understand”. Public Servant 9*

We discussed the extent to which this was unique to Scotland. Whilst there was a recognition that budget scrutiny work is ‘hard’ and ‘unlikely to be headline grabbing’ in any country, there was a view that this seems to be a particular challenge in the Scottish context. One external commentator experienced in international work told us –

*“Budget scrutiny is difficult everywhere. But particularly difficult here, partly a function of the unique issues presented. Some parts are obscure or hidden and the outcome of deals & negotiations between the Scottish and UK Governments. Needs quite a lot of work to piece it together.” External commentator 2*

Several of our respondents discussed why the framework had ended up being so complex, beyond the technicalities themselves. One common view is that the political nature of the negotiations themselves led to everyone wanting their ‘own red lines’ included in the deal agreed. But the result has been *“we have built a hugely complex framework on top of an already asymmetric and unique devolution system in the UK, within a public finance framework at the UK level which is already hugely complex and opaque”*. MSP 4

This spills-over into public understanding, and in part is likely to explain our findings about knowledge of different responsibilities amongst the public. One journalist remarked that –

*“one of the biggest challenges with this framework is that simple questions that most people would want to know the answer too – for example, has a different income tax policy had a positive or negative impact upon the Scottish Budget – immediately gets caught up in a big technical debate about adjustments, reconciliations and forecasts. It’s impossible to make it relatable.”* Journalist 1

Similarly, significant amount of time and resources can be invested in working through an issue that ultimately turns out to be relatively insignificant –

*“In reality, a lot of our time gets devoted to understanding the small-scale specifics of the framework, and what is happening to them, but this means that the big picture gets lost. The UK system is not perfect, but there’s a much sharper relationship between spending, revenues and budgets that allows for greater scrutiny of what decisions mean.”* Public Servant 3

One journalist described to us *“we have a responsibility to cover the Scottish Budget, but beyond the headline tax announcements it is so hideously complex to articulate what is going on that it’s nigh on impossible to engage the general public”* Journalist 2.

A question that necessarily follows is what to do about this?

Many of our interviewees expressed a degree of resignation that it seemed unlikely that the framework could be made that more transparent given all the objectives that it is designed to try to meet – i.e. retain the Barnett Formula, provide tax devolution on income tax but maintain a UK-wide personal allowance etc. For example, one MSP told us –

*“I am a huge supporter of more powers for Scotland, but I’m pessimistic about the future of Scotland’s Budget framework, it’s just too horribly complex.”* MSP 4

Whilst a simpler system might be preferable it might not be a zero-sum game. Reform would require a more radical approach to devolution, including a re-opening of debates around the Barnett Formula, and this had not been the appetite of the majority on the Smith Commission



in 2014. There are questions too about how any changes could be implemented without *“going back to the drawing board and opening up Smith again to move beyond a complex hybrid system”*. MSP 1

Of course, it is important not to lose the bigger picture. There was a recognition amongst many of our interviewees that for all the complexities of the system it had performed well during COVID-19 –

*“Do we need to sacrifice more risk for simplicity? Full devolution of tax for example, without any block grant adjustments but bigger own-source borrowing powers, would simplify things and eliminate unhealthy fixation with comparing ourselves to England. But flip side is that the BGA protects the Scottish Budget, as we have seen during COVID-19. Huge risk dilemma.”* MSP 4

*“It’s easy to criticise the Fiscal Framework but when it was put under stress – such as during COVID-19 – it broadly worked. It provided the necessary protection from a UK-wide shock as it was designed to do and allowed for flexibility to enable emergency support to be forthcoming”*. Public Servant 10

Several interviewees did, however, question the long-term sustainability of such a complex model, and whether one of the reasons it had performed well during COVID-19 was more due to “luck rather than design” External Commentator 4. Even without a further independence referendum, then it is still possible that more powers will be devolved in the future. But the point was made that the level of complexity is already so large, any further autonomy would only make this worse and could threaten the coherence of the system and wider confidence. For example, further devolution of tax or social security powers would open a further round of block grant adjustments and borrowing complexities –

*“At some point the system will become so complex that no-one, not even those immersed in this day-in-day-out will know what is going on, with the risk that the entire budget system is undermined.”* MSP 1

Some MSPs remarked that the complexity of the system suited both governments. It was argued that the complex nature of the framework *“increased the range of manoeuvres any government can do year-on-year to manage its budget and to secure parliament support.”* MSP 2

*The operationalisation of the budget framework has improved but still some way to go*

We found support for recent efforts to extend the year-round scrutiny of the budget, as set out by the Budget Review Group. This new budget process – in principle – “*pushes all the buttons.*” MSP 2

Likewise, we identified broad support for the principle of the Scottish Government’s Medium Term Finance Strategy (MTFS). However, whilst there is a view that after a promising start, the last couple of MTFS had taken a step backward on the volume and detailed of information provided. A key reason for this is likely to be the significant uncertainties caused by Covid-19 –

*“I am a huge supporter of what the MTFS is trying to achieve by taking a step back and looking [at] key strategic questions. First one was a good start, but gaps. However, subsequent reports have even less information now. Reasonable explanations for that, given huge uncertainties caused by recent events, but there is also an argument that you need to keep doing it and setting out information out of a point of principle.”* Public servant 1

More generally, the creation of the Scottish Fiscal Commission (SFC) has been ‘a good thing’ –

*“The SFC input has been invaluable in framing the fiscal and economic context in which the Budget is being set. Always valuable sessions. The OBR too have been hugely helpful. Directors of OBR have been brilliant witnesses.”* MSP 3

We also identified an appreciation for the input provided by senior officials in the Office for Budget Responsibility (OBR), particularly in explaining the wider context in which the Scottish Budget sits.

Outside of these specific institutional issues, we identified four general points worthy of discussion.

Firstly, and building upon the point about transparency of budget information, the lack of a formal process to link information on the budget plans set out in each budget document with actual spend was an important gap –

*“On economy and taxation, most information is available, but it can be hard to pull together in a way that makes sense to people. On general budget stuff it’s improving but there is still no whole of government accounts for example. Limited attempt to attempt to track any differences between allocation and spend – i.e. you said that you would spend Y on education, but in the end you spent X. There is no line of sight between the draft budget document and the Scottish Government’s accounts. Why?”*  
Public servant 6

Secondly, only limited progress has been made to link budget decisions through to outcomes. This is, of course, not easy but there remains a significant appetite to do more –

*“The National Performance Framework has good intentions, but as a framework to scrutinise budget choices it is irrelevant. Take the example of drug deaths in Scotland, it’s very difficult to conclude if decisions around budget allocations have been, at least in part, behind the figures we have seen. Aside from the issue itself, that’s surely not a great state of affairs that we cannot find out the answer quickly.”* MSP 2

*“We simply do not evaluate policy enough. Part of the blame for this rests on opposition parties who seek to highlight any report questioning outcomes as a criticism of government. We need to be much more grown-up about all this.”* External Commentator 3

Thirdly, the timing of the budget process, and in particular the challenges in recent years around the uncertain (and ultimately late) publication of the UK Budget has caused frustration and been seen to hit scrutiny efforts. Part of this is also reflected in frustrations about the move away from multi-year budgeting in recent years. Whilst attempts have been made to move to year-round scrutiny, independent of UK Budget timings, the reality is that the Scottish Budget process is inextricably linked to UK fiscal events –

*“If the UK Government was serious about making devolution work, then it would work to choreograph budget timings and reflect upon how its decisions on budget timetables impacted upon the devolved administrations. This is what happens in every other country that has significant degree of regional autonomy.”* External Commentator 4

This came to a head in 2021 when differences in the timing of forecasts made by the Office for Budget Responsibility and Scottish Fiscal Commission led to ‘a Scottish economic shock’ being identified. This was despite the Scottish Government and OBR both acknowledging that that Scotland was not moving in any way differently from the UK economy as a whole<sup>11</sup>. Speaking to the Finance and Constitution Committee in January of this year, Richard Hughes, Chair of the OBR said that *“so far, much of the UK has moved more or less in lockstep over the course of the pandemic.”*<sup>12</sup>

The difference was driven by the timing lag between when the OBR undertook its forecasts (and the economic outlook looked more positive across the UK) and when the SFC undertook

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<sup>11</sup> A Scottish specific shock is defined as an economic shock occurs, or is forecast to occur, when annual GDP growth in Scotland, on a four-quarters-on-four-quarters basis (4Q-on-4Q), is below 1.0 per cent, or 4Q-on-4Q growth in Scotland is 1.0 percentage point or more below the UK.

<sup>12</sup> <http://archive2021.parliament.scot/parliamentarybusiness/report.aspx?r=13087>

its forecasts (and the UK economic outlook had deteriorated significantly in the 2 months that had followed). Despite this being a timing of publication issue, this enabled the Scottish Government to unlock additional budget management flexibilities. There was a strong consensus among those that we spoke to that it does not seem to be a good situation that additional flexibilities/powers should be when government documents are published. Instead, they should be driven by issues of substance. There was widespread support for UK and Scottish fiscal events to be better co-ordinated.

Fourthly, a challenge that several respondents raised with us was the lack of one independent body providing oversight of the complete operation of the budget framework for Scotland. Several institutions have a key role, from the OBR's UK devolved tax forecasts through to HM Treasury and the Scottish Government's agreement on BGAs and the Scottish Fiscal Commission's tax forecasts. In our survey, 64% of MSPs agreed that with this: *Some suggest that there is a need for a single independent body/entity to oversee the Fiscal Framework – akin to a 'referee'. Do you agree or disagree with this statement?* Only 14% disagreed<sup>13</sup>.

### *Parliamentary institutions*

The remit of the Finance and Constitution Committee during Session 5 came up as a challenge for scrutiny. Few were supportive of having these two subjects – finance and the constitution – under a single committee<sup>14</sup>. In contrast, the majority expressed the view felt the Finance and Constitution elements should be separated. It was argued that this would not only free-up time to discuss budget issues in greater depth but would also remove some of the more challenging political debates from a committee that had an important role to play scrutinising existing powers.

Alongside this there was some support for going further and separating out the remit of the Finance Committee itself, perhaps with one focussed upon strategic issues (and the operation of the Fiscal Framework) and another focussed upon day-to-day budget operations (particularly on spending).

Overall, there was strong support for the efforts of the Finance and Constitution Committee. But several interviewees expressed the view that the nature of the Scottish Budget nowadays, and its complexity, meant that the focus often drifted from discussing budget choices by government through to understanding the operation of the Fiscal Framework itself – as “this is where we can add most value.” MSP 5

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<sup>13</sup> Source: University of Glasgow, University of Strathclyde & SpICe survey (2021).

<sup>14</sup> Their argument was that it is not possible to differentiate issues on tax and social security devolution from wider debates about Scotland's constitutional status and intergovernmental relations.

At the same time, there was a view that portfolio committees tended to only look at their portfolio rather than the bigger picture (such as the overall balance of spend, fiscal sustainability or tracking the accountability of spend vs. plans). As a result, ‘big-picture’ issues such as the impact of demographics on spending commitments, or debates around progress on preventative spend or outcomes, get squeezed. There is a sense that no-one is looking at spending in the round and the trade-offs around priorities. For example –

*“The remit of the Finance Committee means that it tends to focus upon how money is being raised, with how it is spent passed to subject committees. But they don’t have time or resource to undertake detailed analysis – particularly if they have complex other priorities – and no ability to look cross-cutting. Big strategic issues fall through the cracks.”* MSP 3

*“Finance committee is trying to do too much – debate optimal tax policy, think about the Fiscal Framework, what the overall budget picture looks like, what the forecasts are saying, and where money is being spent.”* Public servant 4

We also identified challenges around member churn. Specifically, it was raised to us that there is a problem of institutional memory/expertise when membership chops and changes too much. Understandably, members do not always have detailed subject specific expertise when they join a committee, and it takes some time for them to develop this. Member turnover was identified as a perennial challenge for Committees. Party and government reshuffles result in members moving their areas of responsibility. This can create scrutiny challenges – for example, just as a member is developing expertise in a subject area, they may be moved on. Looking just at the Finance and Constitution Committee in Session 5 of the Scottish Parliament (2016-2021), a Committee with a standing membership of 11 had 29 different members.

With reference to subject committees and the budget, the evidence that we gathered suggested that there were varying levels of scrutiny of their respective portfolio areas. Consideration of budget issues typically depended upon the personalities and interests of the Members involved. Other practical constraints also included whether the Committee was tasked with overseeing a legislative bill which would significantly limit a subject committee’s capacity to do little more than a limited review of the budget in that area. Indeed one MSP told us –

*“My Committee was responsible for scrutinising two highly complex bills in this parliament. The amount of effort that was required for that was enormous. Budget scrutiny barely registered in our thoughts.”* MSP 3

Some interviewees reported that party discipline in Scotland, particularly given wider constitutional debates, meant that there was a tendency to ‘toe the party line’. Similarly, there

was a reflection that for committees to operate they cannot be productive if they are divided. The tendency therefore has been to focus on technical issues rather than more controversial ones. As a result, debates over financial accountability remain “worthy but not headline grabbing.” MSP 6.

If there was to be more overall scrutiny of overall strategic spending decisions outside of portfolio committees, a number of our interviewees commented that one benefit of this could then be to focus the subject committees on how this money is then being spent by public bodies and other organisations with the finance committees focussing instead upon more strategic questions. For instance –

*“The most effective work that a subject area committee has undertaken has been to approach non-partisan issues and focus instead on efficiency, delivery and accountability of the public bodies tasked with spending money – less of how much should be spent in this area and more asking questions about how a sum of money is being spent.”* Public servant 2

This type of scrutiny of public bodies was what the Budget Process Review Group had in mind when it recommended that –

“committees consider relevant Scottish Government and public body performance plans and reports, alongside other available evidence on the intended impact of policies and public spending and the effect these are having. This should be a key part of how they evaluate public spending and how they seek to influence the formulation of future spending proposals.”<sup>15</sup>

Finally, there was the reflection that much of the debate around the budget was focussed upon scrutinising government policy. This is understandable as it is ultimately their responsibility to put forward detailed budget proposals. But it was remarked that there is only limited scope for anyone outside government to affect the budget except through seeking to ‘do a deal’ to support a minority administration. There is much less proactive ideas formulation outside of government that could be incorporated into the budget process and themselves be subject to scrutiny. In short, it is easy to criticise government policy but much harder to come up with solutions. Part of this reflects the need to continue to move to a year-round budget scrutiny process. But some of it also reflects the imbalance of resources and time between government and parliament.

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<sup>15</sup> [https://archive2021.parliament.scot/S5\\_Finance/Reports/BPRG - Final Report 30.06.17.pdf](https://archive2021.parliament.scot/S5_Finance/Reports/BPRG_-_Final_Report_30.06.17.pdf)



## *Resilience*

A final area that we explored was around the resilience of the budget framework. As highlighted above, the system is complex bringing with it some significant challenges. As a result, only a relatively small number of people are likely to fully understand the processes and to take an active interest in them. Even then there are challenges to remember all different aspects of the framework –

*“It’s my day job to know this stuff. But even then, I have to go back and revise my understanding of things from time to time. I can’t imagine what it’s like for others whose focus is largely taken up by other things.”* Public servant 3

On the one hand, this is to be expected. In any system, few people are likely to take a detailed interest in fiscal issues. Given workloads, it is inevitable that parties will have a limited number of experts in any devolved area – for example, some develop expertise in Economy, some in Justice, some in the Environment etc. There is little need for concern too if they undertake such work rigorously. Other parliamentarians and public bodies can then focus upon broader issues.

However, some of our interviewees expressed concern that levels of interest were concentrated in too few people. From a parliamentary perspective, it was argued that budget scrutiny is not like policy expertise as it is crucial to all areas of policy. It should not be treated as something that only a few people need to know about. There is a particular concern that deep knowledge of the Fiscal Framework for example, is retained within a small number of MSPs and public officials. Should they move-on, either through retirement, failing to be re-elected (or reappointed to key committees) or being promoted into ministerial office that knowledge is lost.

Similarly, whilst interviewees highlighted a number of positive developments outside of Parliament, such as the growing number of think tanks and academics interested in devolved fiscal issues, numbers remained very small. Again, should a small number of key external people in academia and public bodies move on, the ability to provide external input into the budget process will be significantly reduced. For example –

*“There have been welcome Improvements in the “fiscal community” from the Scottish Fiscal Commission through to a network of academics across the UK working in devolved public finance issues. But I still have a nervousness that there are not many people who know this stuff”.* External commentator 1

## *Discussion*

In summary, our evidence suggests that there has been an improvement to some degree in levels of scrutiny of the Scottish Budget process. Where there have clearly been improvements however, there appears to be evidence that this has squeezed out some other areas. So, whilst we may have seen some positive improvements in financial accountability around devolved tax decisions for example, this appears to have come at the expense of time spent scrutinising and debating spending decisions. Similarly, a lot of time appear to have been devoted – so far – to discussing the detail of the technical operation of the Fiscal Framework, but less time is spent discussing the strategic issues that underpin the budget more generally

Part of the reason for this seems to be a basic challenge of complexity brought about by the design of the framework itself. Some of this may just be issues reflecting the ‘newness’ of the framework and will become less of a barrier over time. Without going back to the drawing board, most people seem resigned to the fact that this is unlikely to change; although admittedly any attempts to improve the quality of information and engagement around the budget is appreciated. But another core reason seems to be the limited resource and time that is given over to budget scrutiny. Splitting out the remit of the Finance and Constitution Committee may assist in this regard.

At the same time, whilst we identified a general appreciation for the volume of information that is now provided around the budget process, there are question marks over how useful this is given the time available to digest it. Does it cut through to the key issues being debated, is all the available information provided (for example, tracking comparable spend over time as well as budget allocations), and is it provided in a joined-up way to ease interpretation (for example, the different forecasts of the SFC and OBR)?

Finally, it should be a concern that a detailed knowledge of these issues appears to be concentrated in a small number of MSPs, officials and external bodies. This poses a risk to the long-term sustainability of budget scrutiny under the new regime, as it might only take a small number of people to no longer be fulfilling their current role before this knowledge is lost.

## **5. Recommendations**

In this final section, we offer some reflections on where considerations of reform might be best concentrated. We do not propose detailed suggestions as these will ultimately be for individual institutions to decide. But as we look forward to the forthcoming review of the Fiscal Framework, it is timely to offer some general reflections about where improvements could be

made, both for the review itself but also more broadly across the Scottish Parliament and public sector in Scotland.

*a. Trade-off between complexity and risk*

The budget framework that the Scottish Parliament now has is the result of a complex mix of differing political priorities, the asymmetric nature of devolution in the UK and the wider UK public finance system.

As a result, it is complex and must work hard to promote transparency. Without a major re-setting of fiscal devolution for Scotland it seems unlikely that the system could be made much less complex without a significant re-imagining of the entire devolved settlement. One expert in this area summarised this challenge for us as follows –

*“The reality is that the budget framework for Scotland – and crucially the new Fiscal Framework – was a political ‘fudge’. It also gets caught up in arguments about constitutional change. Unless you change that backdrop, it’s difficult to see things changing a great deal.”* External Commentator 3

On the one hand, some will argue that greater autonomy might help reduce that complexity but if these powers were to be operationalised via the current system of devolution and block grant adjustments, then this is only likely to make the system even more complex. Only by decoupling tax and social security devolution from the existing block grant process, is the system likely to become less complex. But this would come with a transfer of risk (including the possible cancellation of the Barnett Formula) which as we have seen over the last year, is not to be underestimated.

It seems likely that this trade-off will lie outside the scope of the upcoming Fiscal Framework review but might be worth revisiting if there are any future discussions over the transfer of ‘more powers’.

Accepting therefore that short of this, the complex framework will continue to exist, this would seem to suggest that the focus should continue to be to try to inform as many people as possible about the budget process in Scotland, develop effective training opportunities and induction for MSPs and parliamentary officials, support external research into budget issues across the think-tank and academic communities in Scotland, and to look for opportunities to improve communications (for example, accessible publications and reports that summarise key issues). Given the complexity in the Fiscal Framework, it is perhaps not realistic to expect that there will be widespread public understanding of its operation. Given that, it is vitally important that the people within and supporting the Scottish Parliament itself do a good job in scrutinising the administration and effects of the Fiscal Framework.

### *b. Committee structures and remits*

Challenges around time and resource to scrutinise budget decisions was a clear conclusion from our study. Efforts to move to a year-round budget scrutiny function have been welcomed, but the practical implementation of this remains a work in progress.

The broad remit of the Finance and Constitution Committee squeezed out detailed budget scrutiny and consideration of wider issues around budget sustainability in session 5. The recent move to separate out the Constitution from the Finance remit should help.

This should help build in more time for detailed scrutiny of budget priorities and sustainability. But is it worth considering going further? We also heard the view that in time there might be a case for splitting up the remit of a Finance Committee too, with one aspect focussed upon strategic questions and the overall Fiscal Framework, and a narrower – perhaps Exchequer committee – focussed upon scrutinising and monitoring spending decisions and cross-cutting areas of expenditure and tracking that over time. However the Committee remits are designed, a clear message from the interviews was that there needs to be more space to consider strategic, long-term budgetary challenges in the round.

### *c. Year-round scrutiny & multi-year spending reviews*

Throughout our research we picked-up strong support for year-round budget scrutiny. There seems to be broad agreement with the focus upon the principle of pre-budget scrutiny and initiatives such as the Medium-Term Finance Strategy. Given recent challenges, most notably the budget uncertainty and upheaval brought on by COVID-19, it is understandable that this remains a work in progress with scope for improvement.

Indeed, this does not mean that such progress should be discarded, recent challenges have only served to emphasise the importance of year-round budget scrutiny and the importance of understanding the long-term challenges and opportunities facing Scotland's public finances.

At the same time, after years of single year budgets, there is clearly a desire from across the public sector to move more decisively to multi-year spending reviews. Again, there are good reasons why this has been more challenging, but it is easy to make an argument that every year is challenging. A return to multi-year budgeting would add great value.

Looking again at practical steps to help make pre-budget scrutiny more effective, perhaps as part of the remit of the Finance Committee, could be important. This might include a series of studies into the long-term questions facing the Scottish Budget, such as demographics, the transition to net zero, economic performance etc.

A further useful suggestion that is likely to have merit would be for the government to commit to publishing a new annual fiscal report before any new 'Draft' budget. This would be backward looking for the most recent financial year and could cover - i) how much money was spent in a given year relative to what had been planned for in the draft budget document? (for example, was more or less spent than planned on free school meals, or childcare?), ii) what outputs and outcomes have been achieved that measures the success of that spend? The Scottish Government's annual accounts simply report high-level spend, but not such level of detail.

#### *d. Oversight of Fiscal Framework*

One aspect of the complexity of the Fiscal Framework is the number of actors involved in key parts of the process.

Tasking one institution, government or independent, as being the body responsible for overseeing the Fiscal Framework and providing regular updates would seem to be of benefit. This body could also keep track of in-year changes and, crucially, highlight how changes either at fiscal events or outside of this, is impacting upon the budget.

One practical suggestion is for the OBR and the SFC to produce a joint document around the Scottish Budget setting out how their forecasts interact with each other, key differences, and the impact upon budget outcomes.

#### *e. Budget timing*

As highlighted above, a clear frustration centres upon the lack of alignment on timing between the UK and Scottish Government budgets. Whilst it is perhaps too easy to blame this lack of alignment for many of the challenges of the framework, there are some genuine practical difficulties arising from the uncertainty of when the UK Budget will take place and how it interplays with when the Scottish Parliament needs to make decisions. This has ripple effects across the public sector, with implications for Local Authorities who have statutory obligations for setting budgets and Council Tax rates. Arguably too, it undermines the wider principle of partnership that the Scottish Budget process depends upon, eroding trust in the system.

Better co-ordination of UK and Scottish budget timings was something that frequently came up in interviews and is something that is worthy of further consideration by the two governments.

*f. Greater investment in capacity building (on both scrutiny, and helping non-government parties to influence the budget more formally)*

Scotland's budget framework is not only complex, but it is also relatively unique (particularly in an international context). This means that understanding it, and how it operates, is not easy. A key concern is that knowledge of the framework, including how it was designed in the first place, is limited to a relatively small number of individuals. This includes individuals in government, parliament but also externally. Should these individuals take less of an interest in the framework, or move on to other things, then this could have a significant impact upon public debate and scrutiny of the budget.

There needs to be ongoing investment in data, crucially to support the independent assessment of the impact of policy decisions on outcomes. Scrutiny of the outcomes achieved from public spending was a key recommendation of the Budget Process Review Group. Some of the onus for this rests on the Scottish Government, in devolved areas of spend, and a need to be more open with data access. But some of rests too on the UK Government, particularly around access to tax information to assess the impact of income tax decisions.

Similarly, continued investment in Scotland's think-tank and academic community is warranted. Funding for external bodies, however, remains a challenge. Some form of public support might be of value. The involvement of the Institute for Fiscal Studies – supported by the Scottish Policy Foundation – was a positive addition to the 2021 Scottish election.

Clearly there are limits on capacity in institutions, but greater resource for external evaluation and 'deep-dives' into core policy areas could be an advantage. This could build on the work of organisations such as Audit Scotland, by taking a particular policy area such as City Deals or Child Poverty and provide an authoritative assessment of the link between budget decisions and either the outcomes that have been promised to be delivered or progress toward key targets.

Finally, one MSP noted that there are often few alternative budget proposals by opposition parties (beyond a small number of one-off policy ideas) and furthermore that a key reason for this was a lack of capacity to develop such an alternative budget. The MSP noted that this contrasted with most local councils where opposition parties do more routinely propose alternative budgets with the assistance and technical support of council officials. Setting aside the additional complexity inherent in constructing a national budget, it serves to underline the limited nature of alternative budget proposals in the Scottish Parliament. Strategic thinking about 'how' to scrutinise effectively, and where to target scarce resources, is crucial. This is something one of our external experts advised us on –



*There is a lot of great resource in Parliament to support scrutiny but it is largely information provision. What is needed is more targeted scrutiny which lies out with the remit of officials and their strengths.”* External commentator 4

*g. Relationships across broader public sector*

Finally, one point that arose as a tangent in our discussions but was raised on several occasions was the need to be much clearer in setting out the budget arrangements from the Scottish Government to its key partners.

Much of the focus of our report here has focussed upon the interactions between the Scottish and UK Governments, but what about the relationship between the Scottish Government and local government? For some of our interviewees this was just as big a challenge. A more transparent framework would be an advantage, and, indeed is currently under discussion between the Scottish Government and Local Government.

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