Accountability map–UK and Scottish public finances

Following the public finances from the UK Government to the Scottish Government

Executive summary

- The processes and accountability arrangements surrounding public finances in Scotland continue to evolve. The devolution of finances increases complexity, creating greater need for a guide to aid understanding and help navigate the different accountability arrangements. Ensuring sufficient public transparency in Scotland is particularly important to promote public understanding and support effective scrutiny. This is in the public interest.

- There is currently no consolidated source available to explain the complete public finance trail matched to accountability arrangements. ICAS has therefore developed this guide which links to various original sources to present a high-level overview; readers can click on sources for further information. Original, official sources are used where possible; publication dates vary so we have used the latest available. As the significant financial impact of Covid-19 distorts normal trends, we have used figures pre-2020 where appropriate.

- Our guide starts with setting the UK budget and the associated budget scrutiny process and how the UK Government is held accountable for public spending.

- The budget setting & review processes at Westminster (UK budget) and the Scottish Government (Scottish budget) are similar but not identical. The guide shows how powers are split between the UK and Scottish Parliaments .

- Increasing devolution of powers to the Scottish Parliament offers greater scope for decision-making in Scotland regarding how UK funding is applied. Clear communication of the reasons underlying prioritisations, Scottish decisions on the application of additional funding (e.g. through Barnett consequentials where the UK Parliament has made a spending decision in England, involving a change in UK taxes), how this is scrutinised and its impact, are examples where specific focus is important.

- Devolved finances are inextricably linked with the UK finances and the guide includes a section on UK Government funding of devolved jurisdictions and the Fiscal Framework. Managing these interdependencies can be difficult (e.g. application of Barnett consequentials and timings for budget setting and forecasting can be squeezed), highlighting the importance of collaboration as part of Scotland's budget setting process.

- The presentation of Scottish public finances does not currently show a single whole of government picture for Scotland. Publishing whole of government accounts (WGA) for Scotland (on the same basis as WGA UK) would increase transparency. This links with performance reporting (at whole of government UK and devolved jurisdiction levels). Developing stronger demonstrable links between parliamentary (and public body) decisions on finance and service performance, with impact assessments, cross-jurisdictional comparisons and outcome measurements is important for public accountability of decision-making.

- We explain the different types of published accounts used by the Scottish Government (IFRS and cash-based) as well as their audit and reporting arrangements.

Ethical Leadership since 1854

Executive summary

- Greater focus on longer-term financial planning and budgeting is generally accepted good practice, better matching the longer-term horizons of public sector service impacts and offering flexibilities to manage finances. We believe that managing the public finances on a longer horizon is a crucial tool for meeting public sector challenges.

- Only expenditure authorised by the budget process can be spent and is dependent on Ministerial decisions. However, where nuances exist, differences in accountability and their potential impact should be highlighted and assessed to ensure they are still fit for purpose.

- Increasing devolution and revenue-raising through Scottish taxes are linked to the performance of the Scottish economy (e.g. VAT revenues). Signposting this interaction supports public understanding. Some aspects of further devolution have been delayed (e.g. VAT assignment and some social security benefits).

- Given the context of change, a periodic review of the methods and effectiveness of the scrutiny of Scottish budget accountability to meet public interest needs would help to ensure accountability keeps pace and continues to meet the intended purpose. The budget setting and review processes at Westminster and the Scottish Government are similar but not identical. In Scotland, budget accountability arrangements are evolving. We comment on current arrangements and key gaps.

- A single, comprehensive source of independent, balanced information on public finances, performance and how decision-makers are held to account would support transparency, public understanding and scrutiny. This should include not just the inputs (spend), but also performance (effectiveness and outcomes).

* ICAS is not responsible for content in external websites. The references are provided for information only. Information correct as at January 2022.

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Setting the UK budget

- The UK Government requires Parliament's approval to spend money, as well as to raise revenue in the form of taxes.
- The Government lays out its plan for taxation and welfare policies in the budget, with the Chancellor giving a speech to the House of Commons. The budget also gives an overview of the general state of the UK economy.
- Parliament provides its main scrutiny of spending plans through the separate "estimates" process, where the Government presents spending proposals for each government department, for Parliament's approval.
- Most public spending requires annual authorisation of Parliament through a process known as **supply**. The supply process requires government departments, other public bodies and pension funds to present their plans for spending in documents known as **Estimates. Main Estimates** set out initial plans at the start of the year; **Supplementary Estimates** set out any proposed changes to those plans, later in the year. Each Estimate must be accompanied by an explanatory **Estimates Memorandum**.

Source https://www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/

- UK Government Departments' budgets are voted for by the UK Parliament. This is called "the supply process" and "supply estimates" are published each year (see the Main Supply Estimates 2018-2019). This includes **block grant funding** to devolved administrations to support spending by the devolved governments.
- A budget visualisation showing how much money the Treasury has allocated to various areas of spending for 2018/19 and spending plans for 2021-22 is available from the **House of Commons Scrutiny** Unit who produce various reports and guides on the budget including an overview for 2021-22 budget, The changes in funding on government departments spending driven by Covid-19, is illustrated in the briefing "Supplementary Estimates 2020-21 and beyond". The impact on Scotland is shown on pages 115-118.
- The Supplementary Estimates provide the last chance for government departments to alter in-year budgets in the light of latest forecasts. See Supplementary Estimates 2017-18 (Source: Main Estimates: Government spending plans for 2018-19)
- **Devolved governments** decide how to prioritise their actual spending, on an accruals basis, and score this against their allocated HM Treasury budget categories (DEL and AME totals*). These are voted by their own Parliaments/Assemblies. Changes in Department budgets are presented at the end of each year via Supplementary Estimates. For more on devolved budget setting see slides 17-20.
- **Further information** on UK budget setting:
  - HMT Spending review and priorities (2020)
  - HMT Statement of funding policy – explains financial relationships across UK
  - HMT Block Grant Transparency – explains block grant calculation process
  - UK Budget explainer

* For definitions and to find out more - see How to understand public sector spending (HM Treasury)

The UK Government requires Parliament's approval to spend money, as well as to raise revenue in the form of taxes.

Scrutiny of UK budget

Accountability and transparency

Parliamentary scrutiny of financial management

- The UK Government must obtain parliamentary consent before spending public money.
- The House of Commons debates the Budget and scrutinises the subsequent Finance Bill, which enacts the Chancellor's proposals.
- UK Government departments are required to produce an Estimates memorandum to explain what is proposed in their Main Estimate, and how proposals compare to past spending plans. The Main Estimates collate the budgets for each government department.

- **Parliament and select committees** have a duty to scrutinise financial decisions, their value for money, and their outcomes. Committees conduct inquiries, leading to reports which often make recommendations to the departments. Recommendations often, directly or indirectly, relate to decisions on spending or taxation, which potentially have financial implications. Although departments do not have to implement the recommendations, reports often receive press coverage and are a crucial mechanism by which Parliament can influence Government and Government is held accountable to Parliament. There is a Commons Select Committee for each government department, examining aspects: spending, policies and administration. There are also other Select Committees covering cross-cutting, domestic, legislative and investigative subject matter. See summary on slide 8.

- HM Treasury have published a summary of their accountability framework which includes accountable officers, directions (if an accountable officer has concerns that a proposal does not meet standards) and delegated authorities for spending up to certain limits approved by Parliament.

- The Scrutiny Unit forms part of the Committee Office in the House of Commons and exists to strengthen the scrutiny function of the House. It provides specialist expertise to Select Committees, particularly on financial matters and on draft bills.

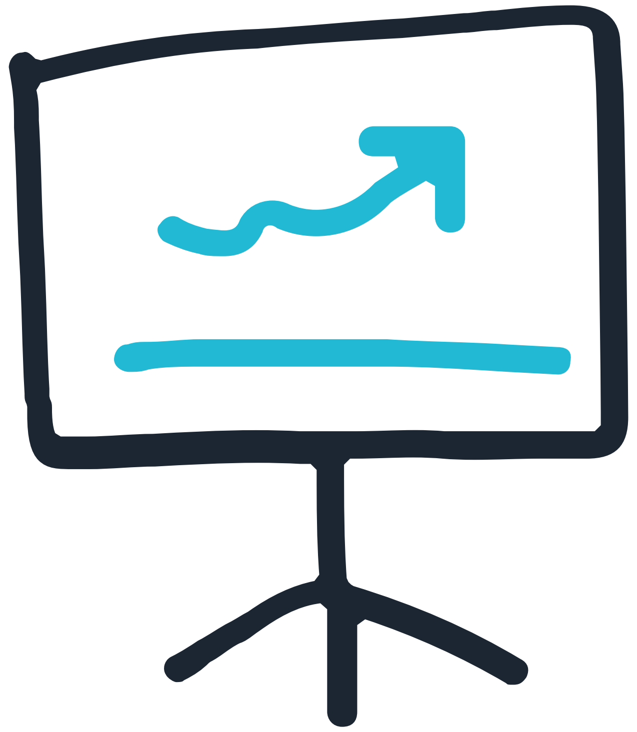
Independent scrutiny

- **The National Audit Office (NAO)** is the UK's independent public spending watchdog for UK government departments. The NAO supports Parliament in holding the UK Government to account and helps improve public services through the publication of Value for Money (VfM) studies and investigations, as well as auditing the accounts of all government departments. the Public Accounts Committee. The NAO is accountable to Parliament via **The Public Accounts Commission** (TPAC**)** which appoints the NAO's board, scrutinises its budget and strategy and appoints the NAO's external auditor. (The Scottish equivalent of TPAC is the Scottish Commission for Public Audit, which similarly is distinct from the Scottish Parliament's Public Audit Committee).

- **The Public Accounts Committee** (PAC) considers the NAO's outputs and spending by UK Government departments. It scrutinises the value for money of public spending and generally holds the government and civil servants to account for the delivery of public services. The Committee looks at how rather than why public money has been spent – analysis of the merit of Government policy is performed by the relevant Departmental Select Committees. The Government responds to reports from the PAC through a Treasury Minute. Departments' progress on implementing the recommendations of the PAC is reported on twice a year in progress reports.

- **The Office for Budget Responsibility (OBR)** provides independent and authoritative analysis of the UK's public finances. The OBR gives evidence to parliamentary committees.

Additional information: House of Commons - Financial scrutiny uncovered Nov 2017

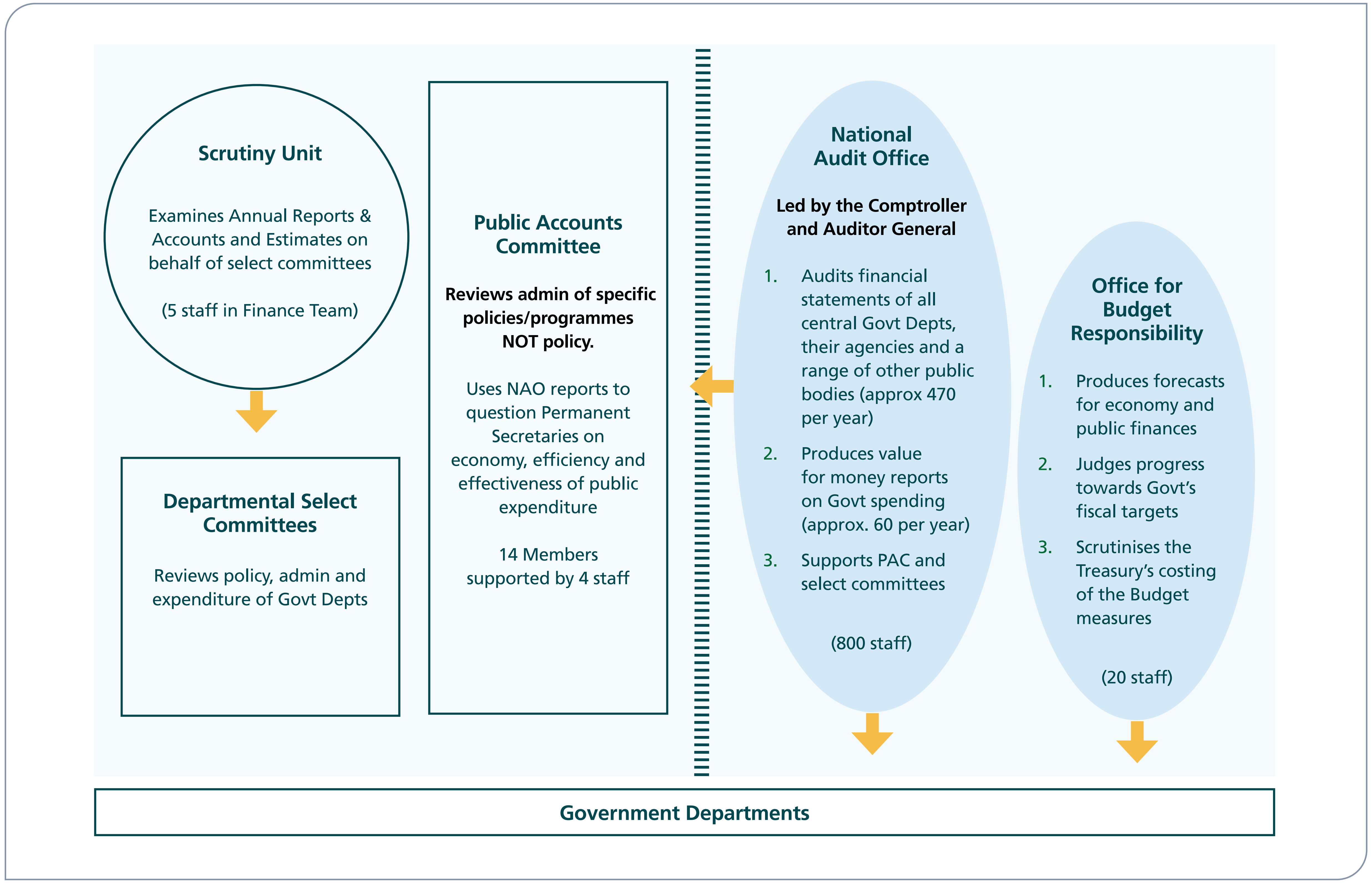


UK budget – parliamentary scrutiny

The Treasury Select Committee is one of the departmental select committees, and has a particular role in scrutinising the work of the Treasury, HM Revenue and Customs, the Bank of England, the OBR, the Financial Conduct Authority and the Government's overall fiscal policies and management of the economy, including the Government's fiscal mandates, borrowing, taxation, Spending Reviews, Budgets and Spring Statements (previously Autumn Statements).

Departmental Select Committees for each main government department, they examine their spending and performance. They can conduct inquiries which result in a published report. The recommendations are not binding on the department, however the media coverage offers a crucial mechanism by which Parliament can influence Government and Government is held accountable to Parliament. **For more on their role see "source" below.**

The Public Accounts Committee examines reports from the Comptroller and Auditor General, head of the National Audit Office (NAO), on value for money (VFM) studies on the efficiency and effectiveness with which government departments and other bodies have used their resources to meet their objectives.



Various sources of evidence are used for scrutiny – see Appendix 1.

Source: House of Commons – Financial scrutiny uncovered Nov 2017 pages 6,7 and 8
Find out more about evidence used and role of departmental select committees in Appendix 1.

Accountability – UK Government expenditure – key points

- Pre-expenditure – budget approval*
- SPEND – all central government bodies present annual reports and accounts to the relevant Westminster parliamentary committee or assembly. This includes all reserved matters for devolved parliaments.
- Accruals-based accounts using International Financial Reporting Standards (IFRS) was adopted by the public sector in 2009/10 to align with international best practice, a single standard offers easier comparability of performance if the accounts (financial statements) are prepared and presented on a consistent basis. This promotes transparency and better understanding of the accounts which supports informed decisions.
- All accounts are subject to external audit. The Public Audit Committee of each parliamentary committee considers reports from the Comptroller and Auditor General (C&AG). Most subject committees have a session on the annual report in key Whitehall departments for their area e.g. Defence. This considers both financial and service performance.
- PERFORMANCE – monitored by relevant parliamentary committees.

*Find out more, The Budget and Parliament.

UK public finances accountability

Taxation and public spending The Government makes decisions, levies taxes and spends public money every day, but it must operate within financial limits approved by Parliament. There are 3 stages in the process:

1. Planning and forecasting

The Government operates within a fiscal mandate – rules for the management of public spending, taxation and borrowing which have been agreed by Parliament.

Within Government, the Treasury determines overall spending plans for several years ahead consistent with this mandate. Around half of public spending is subject to Departmental Expenditure Limits agreed between the Treasury and government departments for several years ahead through Spending Reviews, with the remainder (generally demand led or more difficult to forecast spending, subject to regular reforecasting) known as Annually Managed Expenditure.

The Office for Budget Responsibility (OBR) is required to produce regular Economic and Fiscal Outlooks, forecasting likely tax revenues, compliance with the fiscal mandate, and levels of likely public spending.

2. Raising revenues through taxation

The Government sets out proposals to revise rules or rates of taxation in the Chancellor's annual Budget, now held in the autumn. Any changes, as well as the renewal of certain existing taxes, are included in the annual Finance Bill, which requires approval by Parliament.

3. Spending public money

The Government must also obtain Parliamentary approval of its annual spending plans, which are set out in documents known as Estimates. Each government department produces a Main Estimate, at the beginning of the year, and may also later in the year publish a Supplementary Estimate seeking modifications to its plans. The Main Estimates are based on the spending limits agreed in previous Spending Reviews, alongside latest forecasts for less predictable spending outside of those spending limits programmes. Departments must include within each Estimate the total amounts of money for which approval is sought, and a list of what it is intended to be spent on. All Estimates must be approved by Parliament through Supply and Appropriation bills. (This Parliamentary approval process is sometimes known as "supply").

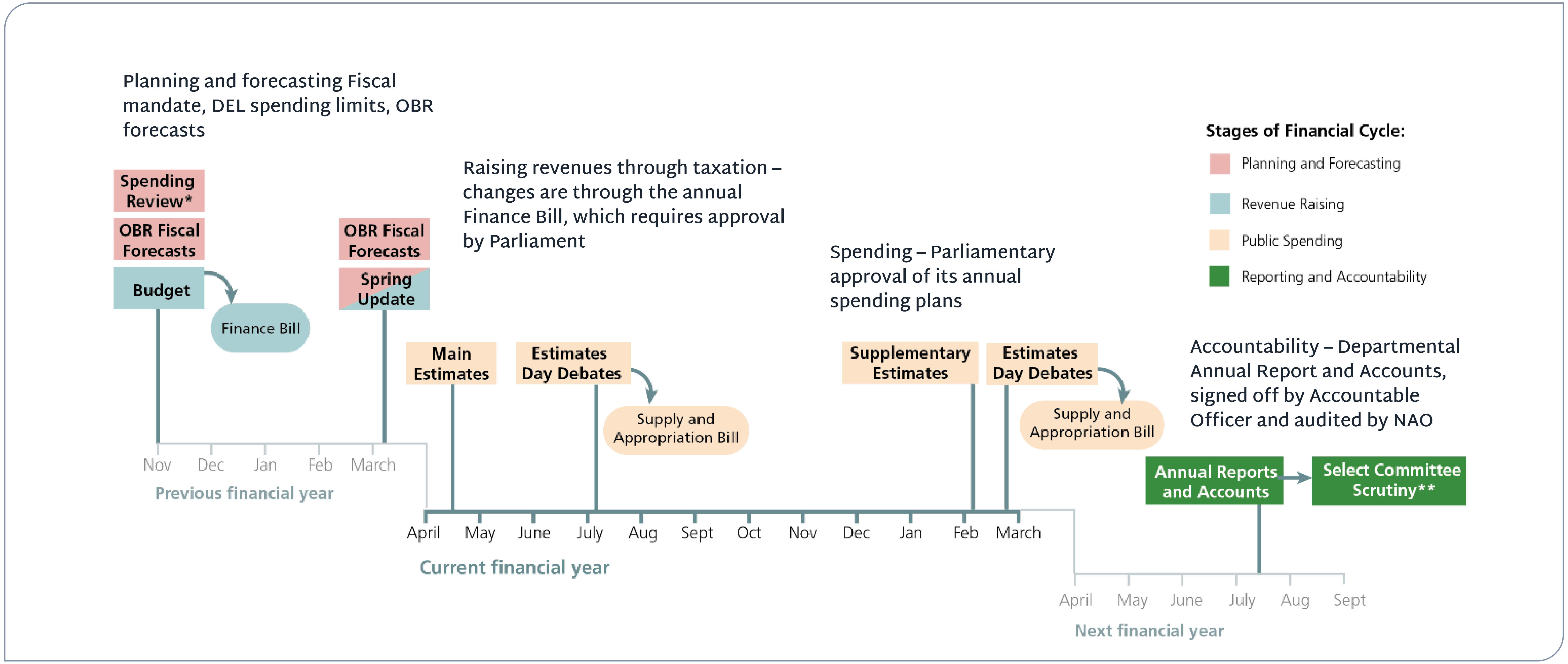
Scrutiny and accountability

At the end of each financial year, departments must each produce a consolidated Annual Report and Accounts, which sets out, for the department and all of its arm's length bodies, the spending in the financial year just ended and balance sheet position at year end (rather like a company's balance sheet and profit and loss account). The senior official in each department is designated its Accounting Officer. The Accounting Officer upholds the standards set out in Managing Public Money, or regularity, propriety, value for money and feasibility and must personally approve the accounts which are also submitted to the Comptroller and Auditor General (National Audit Office) to provide his opinion on the Annual Report and Accounts, prior to laying before Parliament for its opinion before being published. Annual Reports and Accounts should also set out strategic priorities and include updates on performance. **Whole of Government Accounts** provide a more complete view of the public finances and are used by the OBR to support longer term fiscal analysis. They are audited by the NAO and scrutinised annually by the Public Accounts Committee. See WGA 2018-19 and Appendix 4.

Source: House of Commons - Financial scrutiny uncovered Nov 2017 pg 10-12 & NAO

UK budget accountability

While the Government makes decisions, levies taxes and spends public money every day, it must operate within financial limits approved by Parliament. Parliament also has a key role in holding Government to account for its decisions and for the way in which public money is spent.



Update: The current budget process assumes an autumn and spring budget however an autumn budget has not actually taken place in 2019-21 due to Brexit and the Covid-19 pandemic.

Source: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8302#fullreport and House of Commons - Financial scrutiny uncovered Nov 2017 from pg 10

Scottish Parliament and UK Parliament powers

Scotland is part of the United Kingdom and the UK Parliament in Westminster is sovereign (has ultimate power).

Since 1998, through several UK Acts of Parliament (1998, 2012, 2016) the Scottish Parliament has been given devolved powers to introduce new laws on a wide range of issues.

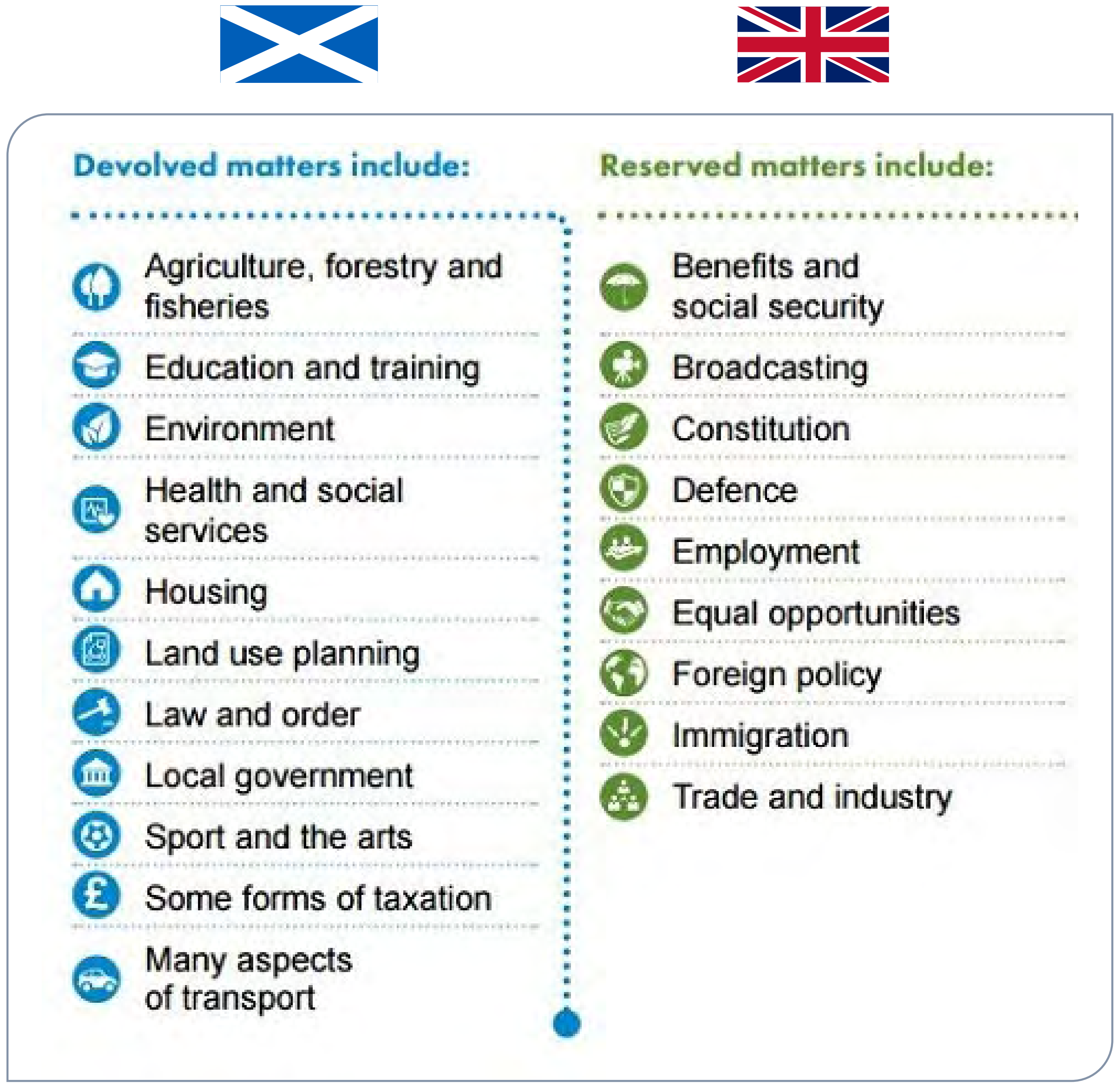
The Scottish Parliamentary powers are devolved.
The UK Parliament retains powers over reserved matters.

Find out more

Update: Some benefits and social security have been devolved by the 2016 Act. This is managed by Social Security Scotland. The process has been delayed.

Note: The UK left the EU on 31 January 2020. EU functions returned to the UK. The implications on devolved powers (including UK internal markets) are (at time of writing) under discussion.

Some UK replacement funds e.g. Structural Funds are being provided to local authorities directly, rather than via the Scottish Government (the devolution settlement).



Source: Scottish Parliament

Scottish Parliament – increasing devolution

- Recent legislative changes (Scotland Act 2012 & 2016 which amended the Scotland Act 1998) have increased Scottish parliamentary powers to raise income.

- These have transformed the Scottish parliament from a spending parliament to one which can also raise income through taxation.

- Scottish responsibilities are limited but include controlling adjustments to rates and bands on income tax rates (non-savings & non-dividend income only). The Scottish parliament can determine Land & Buildings Transaction Tax and Scottish landfill Tax.

- The implications for accountability are:
  - Increasing responsibility needs to be matched by arrangements to ensure decision-makers are accountable, and
  - Finance systems need to keep pace with information needs to support decision-making.

How the UK Government funds the Scottish parliament and how this is changing:

- Block grant from the UK government used to be nearly all Scottish government funding. Once full provisions of the 2016 Act are implemented (i.e. including VAT) it will form less than half (see timeline hotlink slide 15), this is because:
  - block grant from the UK Government decreases, whilst
  - Scottish tax raising powers increase timeline of changes to income and responsibilities.
  - This is all governed by the Fiscal Framework. This is due for review in 2021.

- Funding sources are becoming more varied and complex
  - For all taxes set, raised or assigned in Scotland, the block grant is reduced. Grant funding is increasingly being replaced by additional Scottish powers over raising taxes and borrowing
  - See the overview of devolved finances and changes in the sources of funding.

Source: *Managing the implementation of the Scotland Acts (Audit Scotland 2018) paragraph 3, licensed under the Open Government Licence

“The Scottish budget is becoming increasingly complex. It is also subject to greater uncertainty and volatility than when the majority of its funding was relatively fixed through the block grant from the UK Government. The way the Scottish economy performs relative to the rest of the UK will have a greater influence on public finances than ever before. The Scottish Government has more choice over tax and spending, and more decisions to make about how and when to use its borrowing and reserve powers.”

Source: Managing the implementation of the Scotland Acts (Audit Scotland 2018) paragraph 3

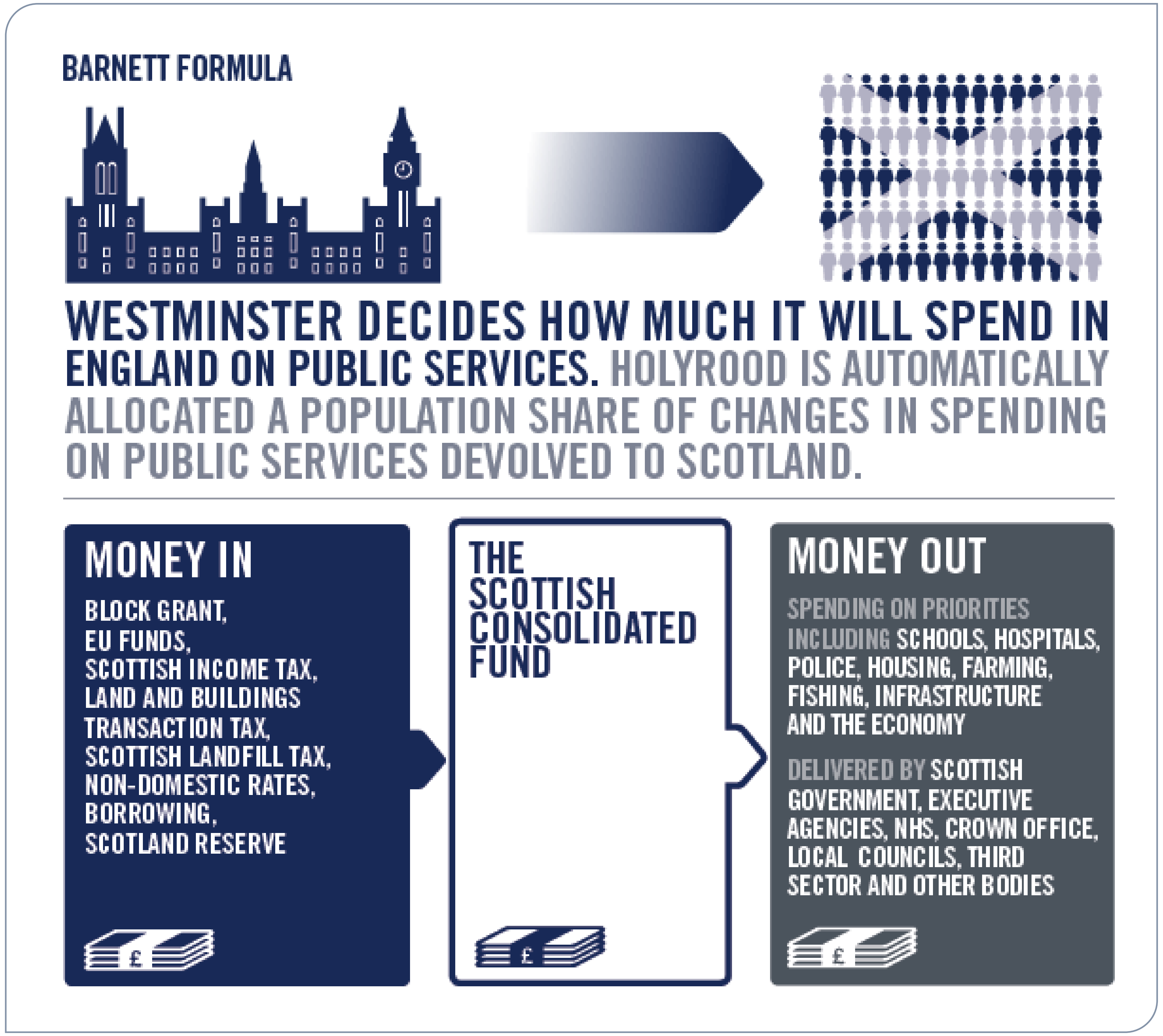
Devolved finances in Scotland – overview

- The Scottish Government is accountable to the Scottish Parliament and the people in Scotland for its use of public money.

- Scottish Ministers decide spending plans that have to be approved by Holyrood.
- The Scottish Budget in 2019-20 was £42.6 billion. An overview of how this is **spent** is shown in Appendix 6.

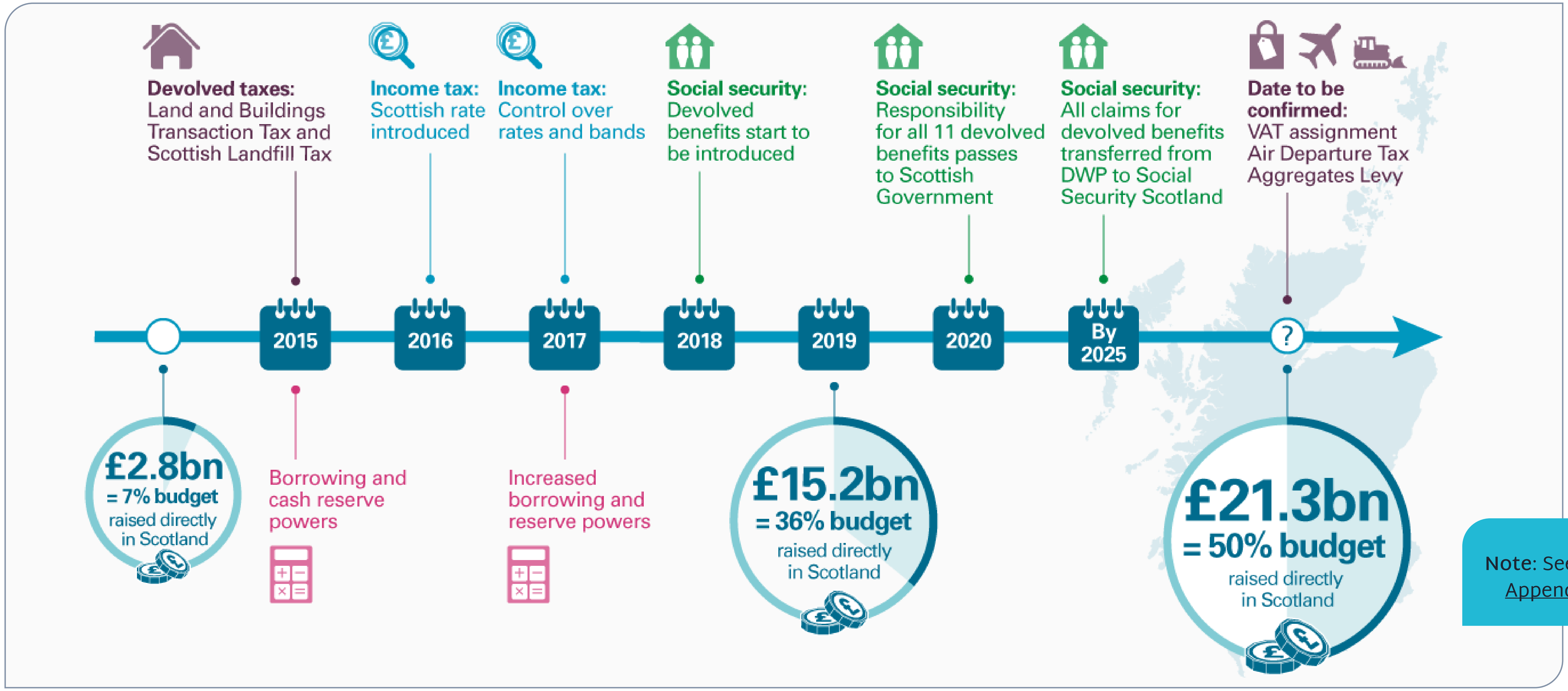
- **This guide will focus on 2 main sources of income:**
- Block grant (majority of funding from UK Gov but will decrease as powers are devolved to raise revenue from Scottish taxes)
- Scottish taxes (new & increasing)

This guide excludes local taxes raised via local authorities.



Source: Scotland's Finances: Key facts and figures for 2019-20

Increasing devolution – timeline



Note: See more Appendix 2

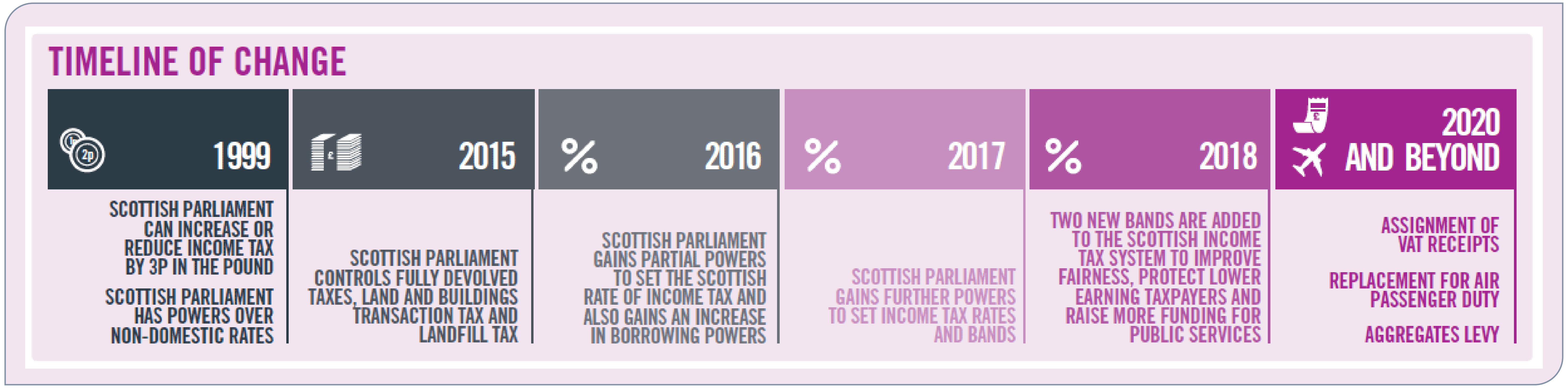
Source of diagram: Audit Scotland Financial Devolution in Scotland – the journey so far (no longer online) The delivery plan for devolving social security benefits is illustrated in Scotland's Finances: Key facts and figures for 2019-20. Latest figures from the SFC show 15% of social security is devolved in 2021-22 which will increase to 72% in 2026-27. Social Security Scotland is responsible for managing the devolved benefits.

Update on delays:
VAT, Air Passenger Duty and aggregates levy are still to be devolved.
Most but not all of social security benefits were devolved early 2021.
Find out more in the Scottish Government benefits overview
New implementation dates are not yet available.

The fiscal framework

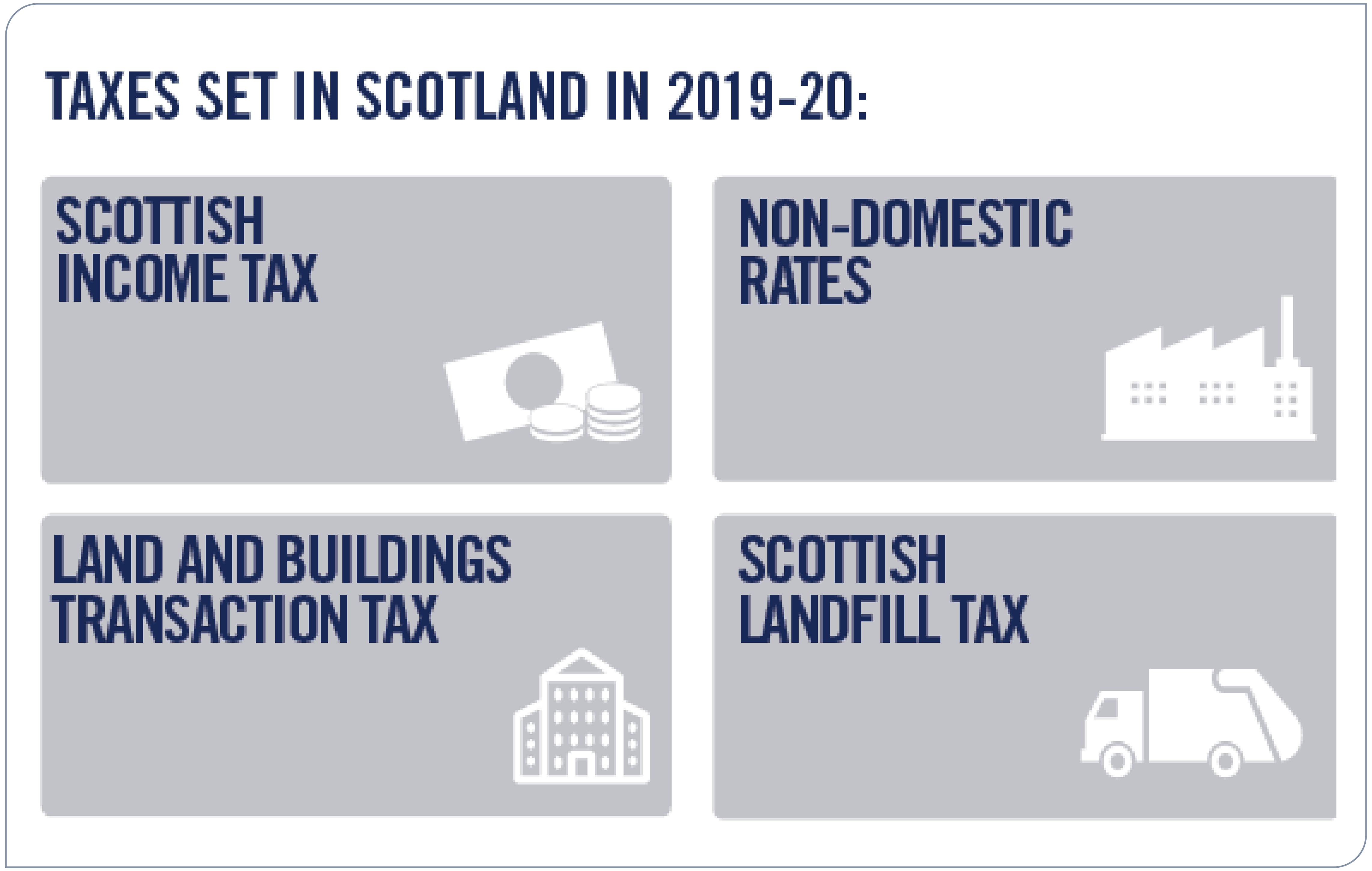
The Fiscal Framework is an agreement between the UK and Scottish Governments that sets the rules for how Scotland's tax and social security powers are managed and implemented.

- **The Smith Commission** - on whose conclusions the Fiscal Framework is based - envisaged a fundamental change in how the Scottish Government would be funded. It foresaw a substantial proportion of the Government's Budget coming directly from tax revenues raised in Scotland and greater borrowing powers.
- The main objective of the new **Fiscal Framework** was to change the funding arrangement to support the transfer of tax and social security powers to Scotland while, to a significant extent, retaining the stability of Block Grant funding. It also increased the Scottish Government's borrowing powers.
- The guiding principle of the Framework is '**no detriment**'. This means neither the Scottish nor the UK Government being worse off as result of the powers transferring.
- Borrowing – rules and limits on how powers can be used are set out in the Fiscal Framework between the Scottish and UK Governments.



Source: Scotland's Finances: Key facts and figures for 2019-20
Update: the Fiscal Framework is due for review in 2021. A date has not yet been confirmed.

Scottish taxes



Update:
The transition process has been delayed. VAT assignment is still outstanding.
The revised implementation is not yet available.

Find out more:
Getting to know Scotland's Taxes (ICAS and CIOT)

Source: Scotland's Finances: Key facts and figures for 2019-20

Block grant and the Scottish budget

Block grant − Adjust for devolved revenues + Adjust for transfer of devolved revenues and Social Security funding = Scottish budget

Most of the funding is by a block grant from the UK Government which is included in Estimates voted by the Westminster Parliament.

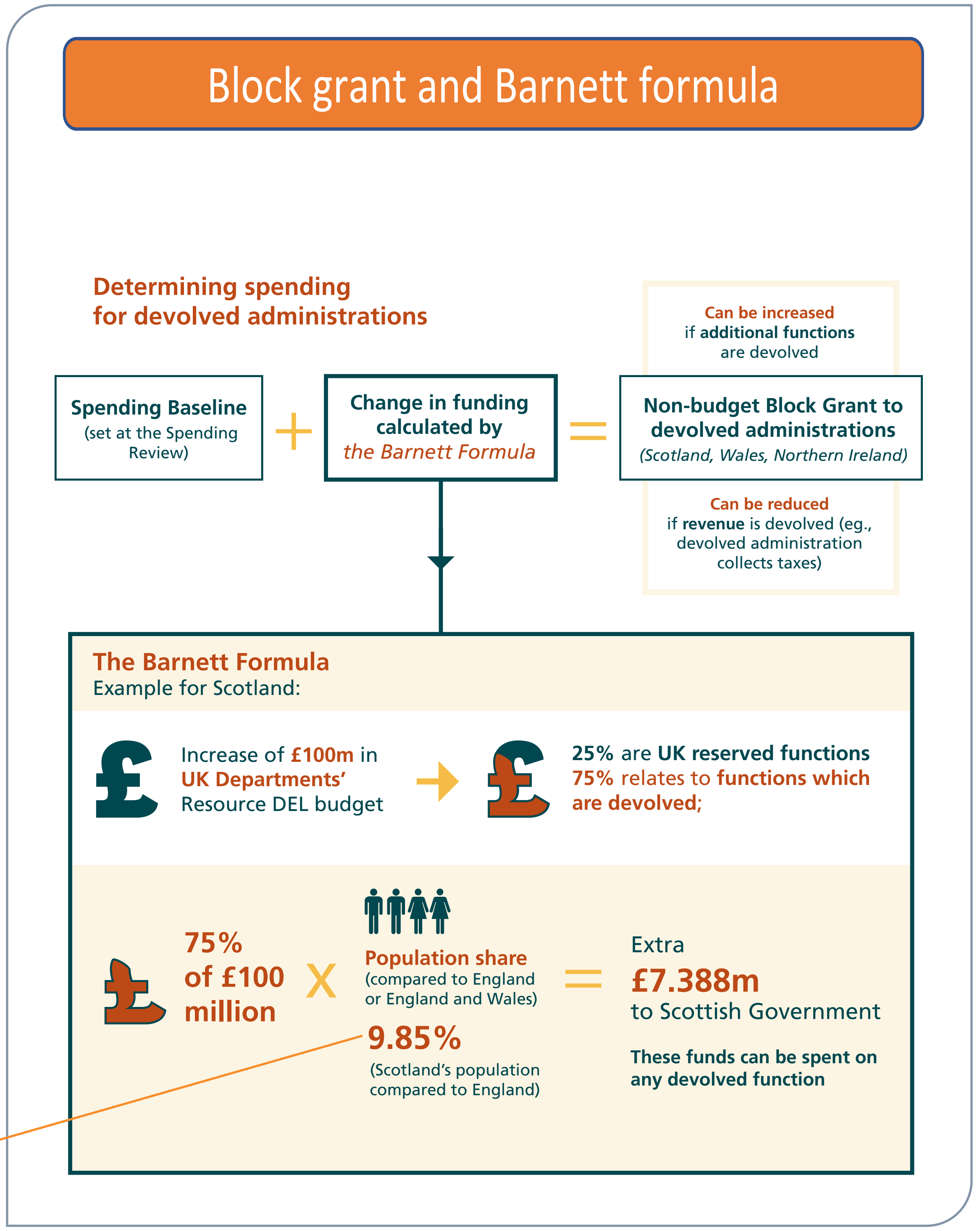
The amounts received in block grants are based on the “Barnett formula”. The Barnett Formula calculates the change in the devolved administration’s block grant based on changes in UK department funding, the extent to which that UK department’s funding is devolved and each country’s population.

Adjustments to block grant include: deductions for devolved taxes & revenues plus transfer of UK funding for Social Security services devolved to Scotland.

The devolved administration decides how to allocate this funding to devolved activities. The only restriction is they may not use capital funds for resource purposes (although some detailed restrictions exist – note 2). The devolved administrations also have agreements in place with the UK Parliament regarding borrowing, cash reserves and how much spend they can carry over from one year to the next.

Find out more

- Scottish Parliament summary guide on the new Scottish budget process
- Scottish Gov Scotland’s Finances: Key facts and figures for 2019-20 and update for 2021
- Scottish budget guide 2021-22



Note 1 - Scotland as a % of England now 9.71% per House of Commons Library paper: The Barnett formula (House of Commons 2021 page 7.
Note 2 – detailed restrictions in budget classifications include (i) non-cash resource which can only be applied to non-cash items e.g. depreciation; (ii) financial transactions (capital budget) for loans to private & third sector with specific rules. Source: House of Commons - Financial scrutiny uncovered Nov 2017 pg 16

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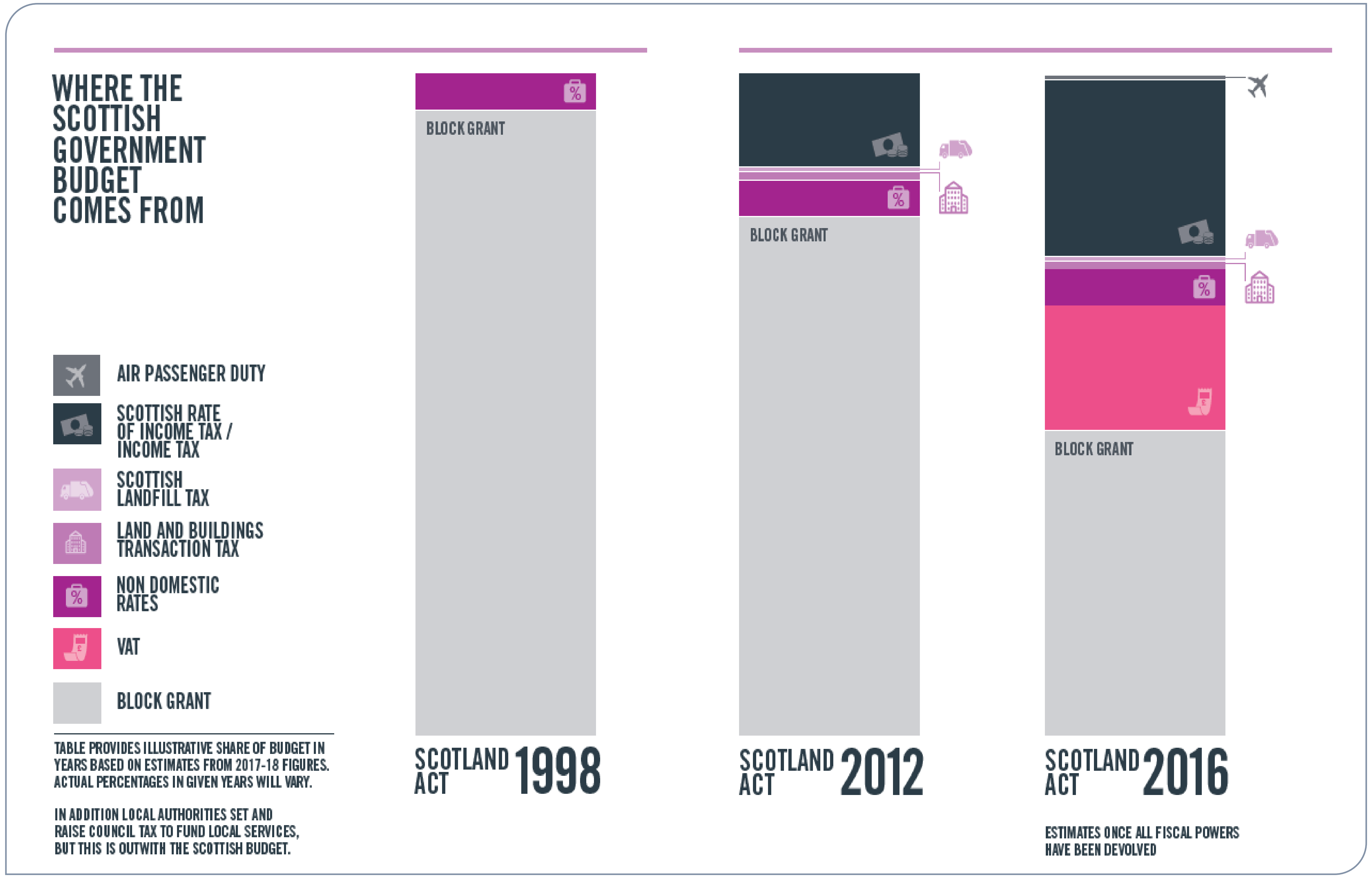
How block grant is changing



"These changes mean that the size of the Scottish budget is now directly linked to Scottish economic performance... as well as Scottish Government policy decisions."

Source: Guide to the new Scottish budget – Scottish Parliament Information Centre (SPICE) 2018

Update:

The transition process has been delayed. VAT assignment is still outstanding. The revised implementation timetable is not yet available.

Estimates of VAT share in Scotland over several years have been published by the UK Government.

Source: Scotland's Finances: Key facts and figures for 2019-20
Note: from 2020, significant additional funding from the UK Government was received to manage the Covid-19 pandemic which distorts normal funding trends.
Further information on Covid-19 funding is available here Scottish Fiscal Commission forecast August 2021 infographic (estimated £8.6bn of total funding of £50.3bn for 2020/21).

Scottish budget setting process

The Scottish budget setting process and accountability was revised in 2018 and written into a revised Written Agreement between the Scottish Government and the Finance and Constitution Committee* and the Guide to the new Scottish budget - Scottish Parliament SPICE briefing 2018 (page 15).

The Scottish Parliament must vote on the Scottish budget annually. Expenditure can only be incurred if the budget is approved by Ministers. The Scottish Government budget interacts with the UK Government budget and its decisions on allocations to devolved jurisdictions. This creates a sequence where UK spending plans are approved then flow through to Scottish budget decisions. This sequence can cause a timing squeeze which may create some uncertainty in the Scottish budget. This was demonstrated during Covid-19 when significant additional UK funding was allocated.

(See also Breakdown of Covid-19 funds from UK Government).

*The process is outlined on page 4.
Note from June 2021 the Finance and Constitution Committee has changed its name to Finance and Public Administration Committee. All references to work undertaken by this committee in this guide will use the new name.
Source: Guide to the new Scottish budget process

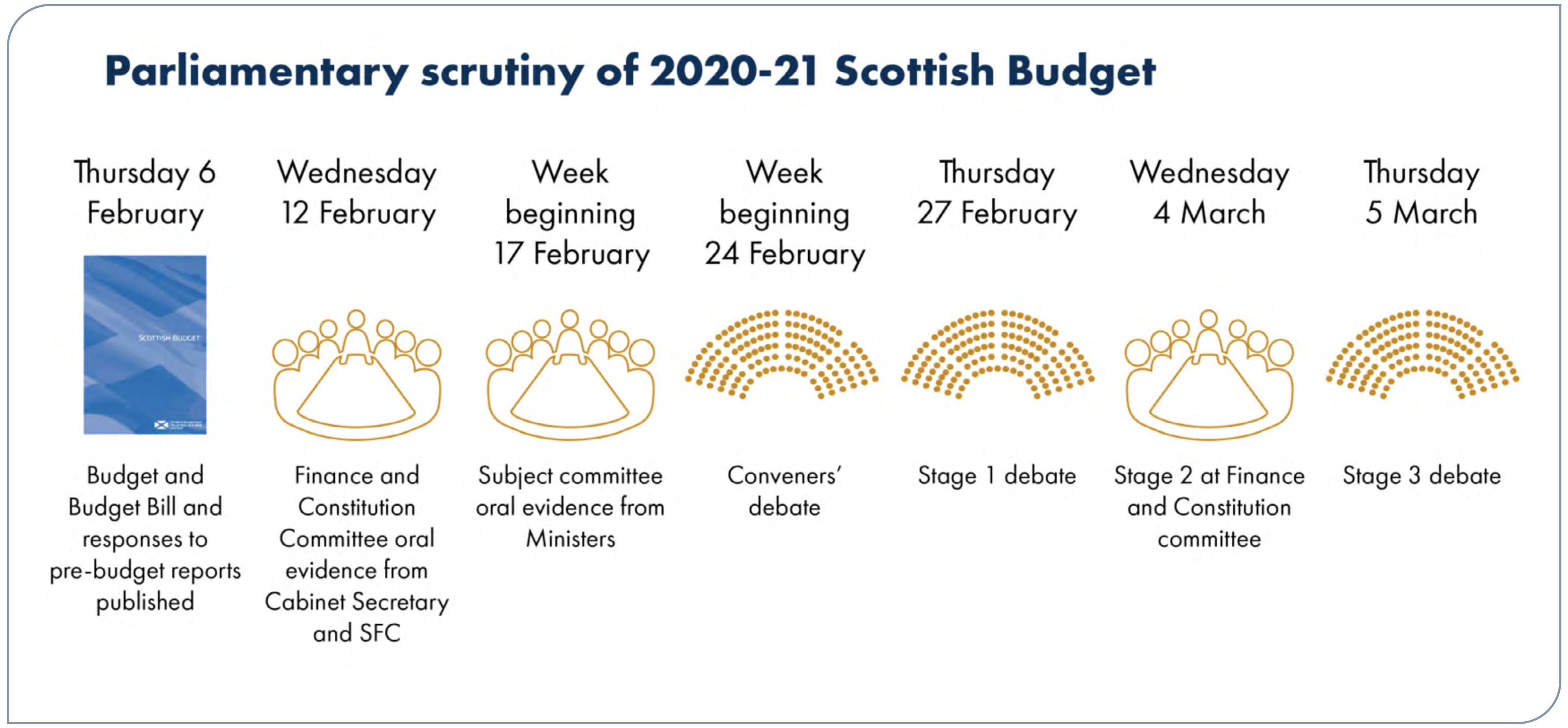
Accountability – Scottish Government budget and spend

- **Pre-expenditure** – budget approval
  The budget is prepared by the Scottish Government. Parliamentary scrutiny is led by the Finance and Public Administration Committee supported by service committees who conduct evidence sessions, prepare pre-budget reports and scrutinise the relevant minister about spending. Service committees are currently developing their role scrutinising budget proposals & implementation in their respective areas.
- The budget is debated by MSPs to shape the final approved budget bill*.

Official publications on Scottish public finances

- With the greater reliance on less predictable tax income (compared to block grant), the Scottish Fiscal Commission publish forecasts on the economy, tax receipts and social security expenditure over 5 years to help manage uncertainty. They also publish forecast evaluation reports to compare their annual forecasts with actual outcomes to review how precise the forecasts were.
- Under the current constitutional settlement, more than one government responsible for public sector activity in Scotland. Government Expenditure and Revenue Scotland (GERS) is the annual Scottish Government statistical publication providing an estimated annual set of fiscal accounts. It aims to enhance public understanding of fiscal issues in Scotland. GERS is not a set of audited financial accounts; it has a different purpose, scope and applies a different framework. Scope includes non-devolved functions in Scotland e.g. defence which is not part of the Scottish Government consolidated accounts. It complies with the Code of Practice for Standards so it is comparable with the UK and other countries, to ensure consistent measurement of economies.

- Financial statements (annual accounts)



* Source: https://spice-spotlight.scot/2020/01/14/budget-process-2020-21-we-have-a-date/

Accountability – Scottish Government budget and spend – commentary

Post-expenditure scrutiny - the annual accounts and audit

- Scottish Government annual accounts (financial statements) are audited, laid in the Parliament and published. At the same time, an additional report to Parliament brings together all the accounts that report on the Scottish Budget to show the position against the parliamentary approved “limits”.
  A provisional budget outturn is presented to Parliament in June. This informs the starting position for the next Budget.

- The Scottish Government consolidated accounts and annual budgets are published yearly with a summary budget. The Scottish Government (SG) includes other public bodies funded from the budget e.g. NHS and Crown Office, known as the “consolidation accounting boundary”. They also record as expenditure, grants to public bodies which are outside its accounts boundary (e.g. local authorities, colleges and universities). Most but not all service delivery spending is in the SG Consolidated Accounts, public bodies also report separately. The Scottish Government provides Parliament with provisional and final outturn statements, setting out overall budget performance across all aspects of the budget.

- A fuller view of the different components of the Scottish public finances is in 3 parts as the revenue raising is not part of the Scottish Government Consolidated Accounts. The Devolved Taxes Account shows all devolved taxes raised in Scotland and the Scottish Consolidated Fund Account (SCF) shows the total cash paid in from HM Treasury and other sources in Scotland e.g. proceeds of crime. These accounts are prepared and published separately and can be accessed online at revenue.scot and gov.scot. Audit reports are published (SCF 2019-20). The UK equivalent of the SCF is the UK parliament’s Consolidated Fund.

- Although the Scottish Government Consolidated and Devolved Taxes accounts are both prepared on the basis of International Financial Reporting Standards (IFRS) which uses an accruals basis (including liabilities), the Scottish Consolidated Fund is cash-based. Find out more: The Scottish Consolidated Fund and reporting

- The Public Audit Committee reviews the accounts and audit report produced by Audit Scotland. Audit Scotland publish the annual audit reports of all public bodies under the Auditor General’s responsibility. Any specific concerns are raised by section 22 reports and would usually mean a committee appearance for the Permanent Secretary.

PREVIOUS
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Scottish budget scrutiny: how Government is held accountable for public spending – commentary

- Performance – this is evolving and is part of the budget review.

- The budget process and role of the Scottish Parliament's Finance and Public Administration Committee has been formally reviewed by the BPRG. Progress against actions has been delayed in part due to Brexit and Covid-19. Key points include:

  - There is still an over emphasis on one year budgeting. Longer term financial planning and multi-year budgets would better support robust planning & prioritisation for public services.
  - There is no overall Scottish spending review (a gap since 2011) - this would provide an opportunity to inform assessment of priorities and proposals in a multi-year budget (similar to the UK Government).
  - Parliament needs to gain a better understanding of what public spending has achieved and its impact (outcomes-based scrutiny). Evaluation of the impact and outcomes of policies and spending plans should inform the budget setting & prioritisation process.
  - Historically budget scrutiny has been heavily focused within the Finance and Public Administration Committee and while the engagement of service committees is evolving to meet the recommendations in the BPRG budget review report, it is yet to mature (not helped by Covid-19).
  - Budgetary scrutiny focuses at the Scottish Government accounts level; within this the budget process does not yet have a consistent approach to reviewing department accounts and spending priorities through engaging service committees.
  - Deeper integration at all levels including service committees would strengthen scrutiny, improve the evidence base, help inform the Finance and Public Administration Committee and aid prioritisation generally.
  - A clearer role at public body/ service levels and parliamentary service committees to gather evidence from the public bodies and a stronger performance management framework to inform this, would be beneficial.

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Scottish budget scrutiny: how Government is held accountable for public spending – commentary

- SPEND – budgetary scrutiny processes are evolving so some uncertainty exists. See slide 24 for key messages.

- There is not a Whole of Government accounts picture for Scotland. The Scottish Government publishes accounts (financial statements) which include bodies within the Scottish Government boundary but this is not all public bodies (e.g. local authorities). To view a full accruals-based UK public sector position, it is available via Whole of Government Accounts UK. IFRS accounts include liabilities (committed expenditure) which offers a more complete picture of costs for accountability purposes (financial statements are subject to audit).

- Using international accounting standards for public sector accounts helps improve understanding and comparability of government finances with other organisations. This is a reason why IFRS was introduced in the UK public sector. Alignment of accounts supports easier consolidation for WGA.

- PERFORMANCE – The Auditor General reports to PAC the areas of high risk or where something significant has gone wrong however this is not the same as a routine review of service performance undertaken by committees (as at Westminster). In Scotland, oversight is via parliamentary committee but their key focus is finance and performance is not consistently considered – this is evolving as the recommendations from the Budget Review are actioned. The aim is to get parliament & committees more involved in budgeting and financial strategies which will strengthen scrutiny. The Finance and Public Administration Committee at each parliament has significant input to budget and financial performance. The Audit Committee focus is more financial (i.e. how money is spent). Different subject committees are interested in the performance of services but there is scope to increase their input to budget planning.

- The Scottish Audit Committee lacks a wider remit across government in terms of how it manages itself. For example, there has been no Scottish equivalent in the parliamentary committee structure to the UK Government's Public Administration & Constitutional Affairs Committee which examines how government works, the quality of work and standards of administration. This gap is being addressed - the Finance and Public Administration Committee focuses primarily on finance but our understanding is that this is to be supplemented in 2022 to include public administration however this is not yet detailed in the remit.

- The complexity and challenges of the devolved funding process are recognised – see more on the process: Funding for Scotland, Wales and Northern Ireland (UK parliament 2019) and Investigation into devolved funding (NAO 2019).

- Understanding the impact of spending decisions (including consequential funding) is important. One aspect of the impact of the health and social care levy on Scottish taxpayers is explained by ICAS. SPICE has published Health & Social care: who pays, who decides? The House of Commons published an insight paper on powers of decision-making on devolved matters.

Appendices – supplementary information

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Sources of evidence used to scrutinise UK government policy & spending

Departments Annual Reports and Accounts Mid-year Reports Estimates (Main and Supplementary) Impact assessments Performance indicators	**Parliament** Committee reports Oral evidence Written evidence Written Ministerial Statements Hansard debates
Treasury Budget Autumn Statements Spending Reviews	**Other sources** Value for money studies (National Audit Office) Macro-economic fiscal forecasts (Office for Budget Responsibility) Statistics (Office for National Statistics/OECD) Research papers (think-tanks/universities)

Source: Better Financial Scrutiny - A Guide for Select Committees (House of Commons Scrutiny Unit) (pg 19)

The Role of Departmental Select Committees in Financial Scrutiny

Committee core task: "To examine the expenditure plans, out-turn and performance of the department and its arm's length bodies and the relationship between spending and delivery of outcomes."

One of the departmental Select Committees' main roles is to examine the expenditure plans and performance of the associated department. Financial scrutiny of the **department as a whole** is carried out through analysis of key documents that Departments produce such as their:

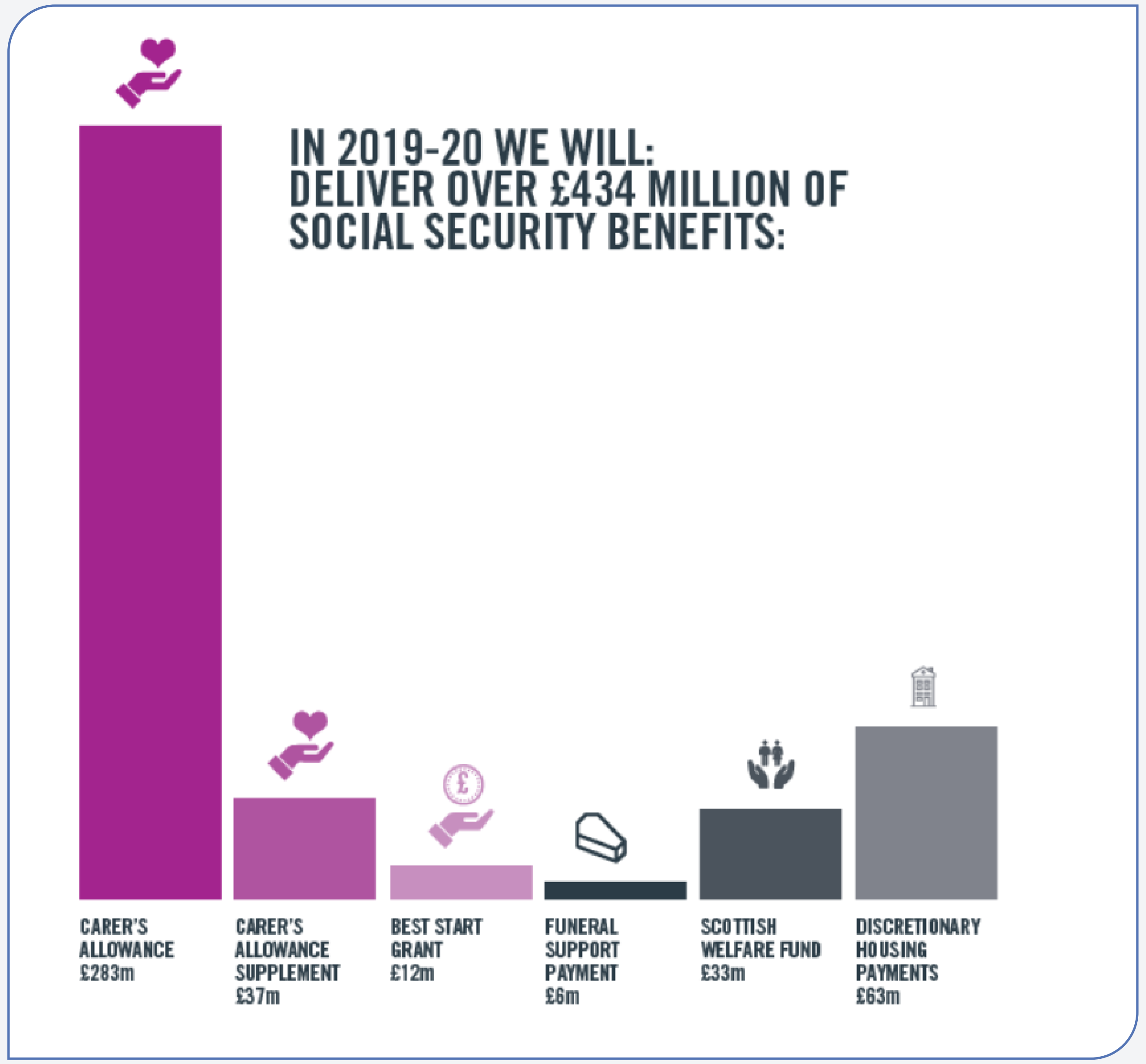
- Annual Report and Accounts – which reports on spending for the previous financial year, and shows the assets and liabilities at year end;
- Mid-year Report – this gives an update on spending and performance of the department, mid-way through the year;
- Main Estimate – this covers the expected spending for a department for the financial year, and is presented to Parliament for approval, setting the Department's budgets and cash requirement for the year;
- Supplementary Estimate – this is presented to Parliament when a department changes its budget limits or cash requirement during the financial year.

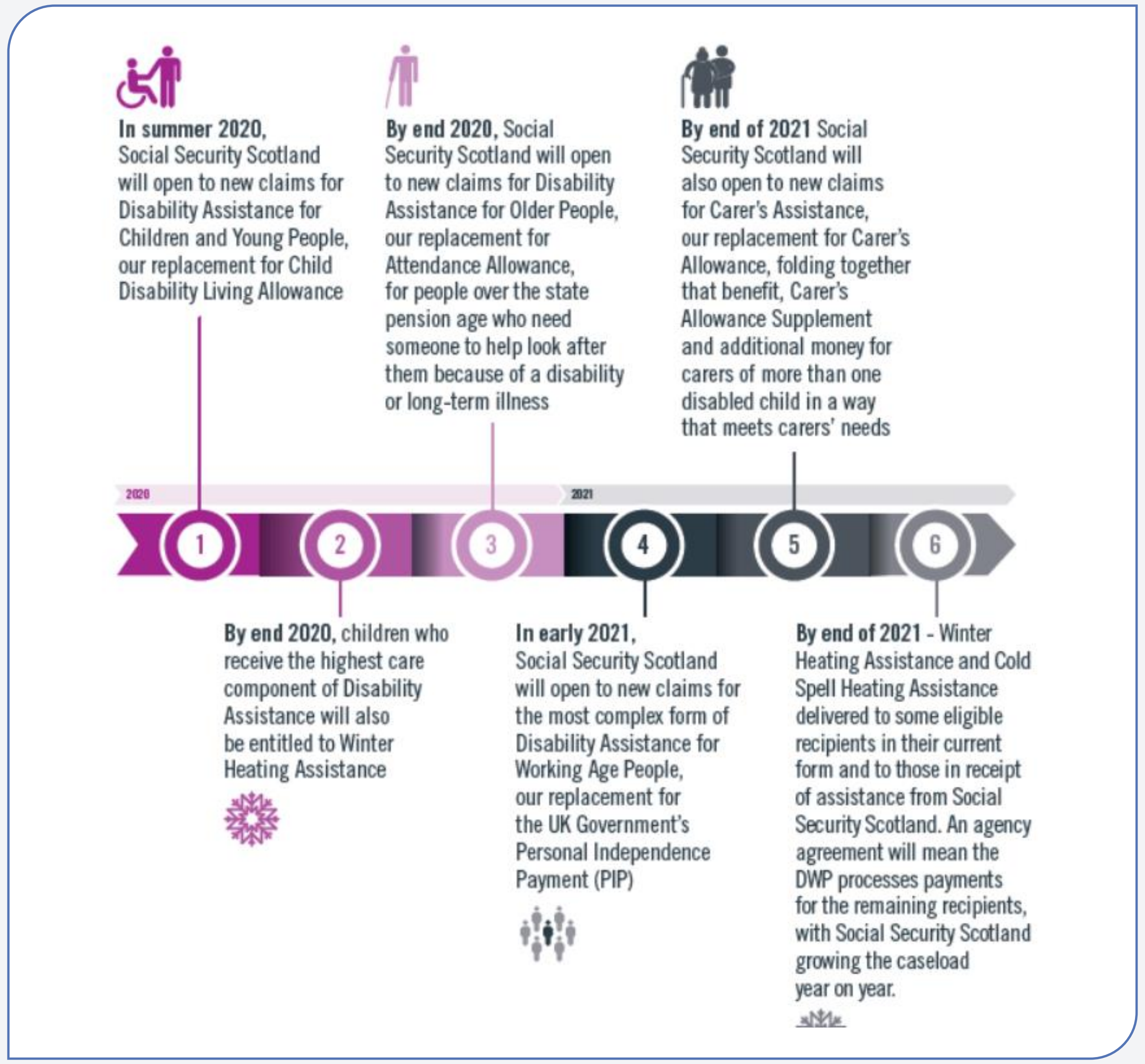
Source: *House of Commons Scrutiny Unit (pg 4)

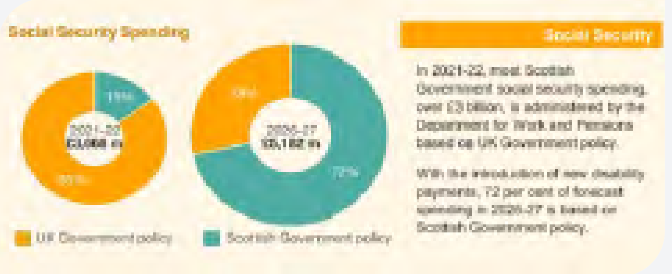
Devolution of social security

- The Social Security (Scotland) Act 2018 sets up a Framework for a new Scottish Social Security System.
- Once powers are devolved the Scottish Parliament will control 16%* of social security spend in Scotland.
- The value of social security benefits to be devolved is expected to be in the region of £3.5 billion in 2020-21.

Responsibility for all devolved benefits, including their funding, will sit with the Scottish Government from 1 April 2020. The timetable for the delivery of the next wave of devolved benefits is:







Update:
Timetable has been delayed –
****update outstanding.****

Sources: Scotland's Finances: Key facts and figures for 2019-20 & Scottish Fiscal Commission

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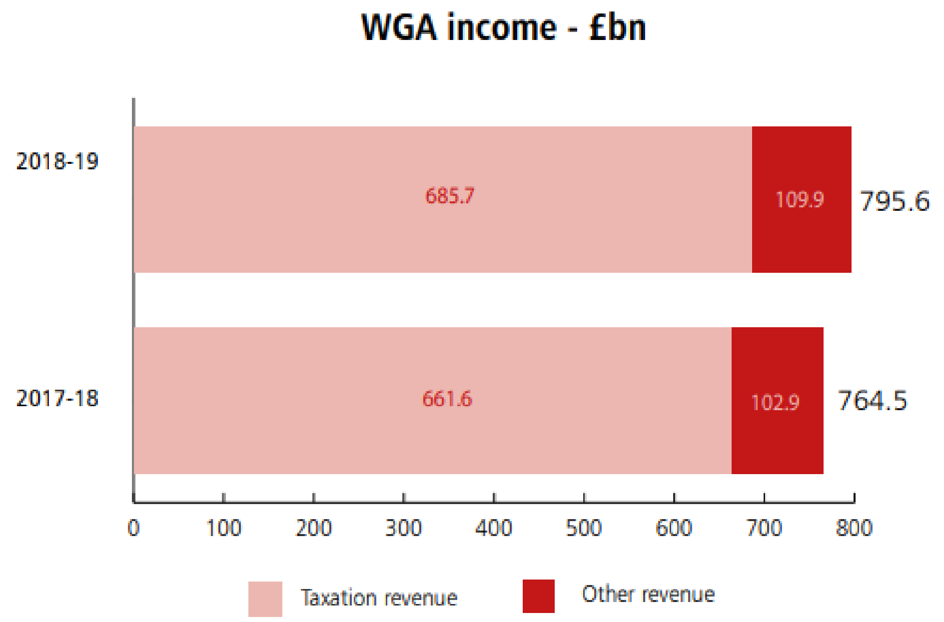
Whole of government accounts (WGA) 2018-19 – income

Over 85% of government income is from taxation

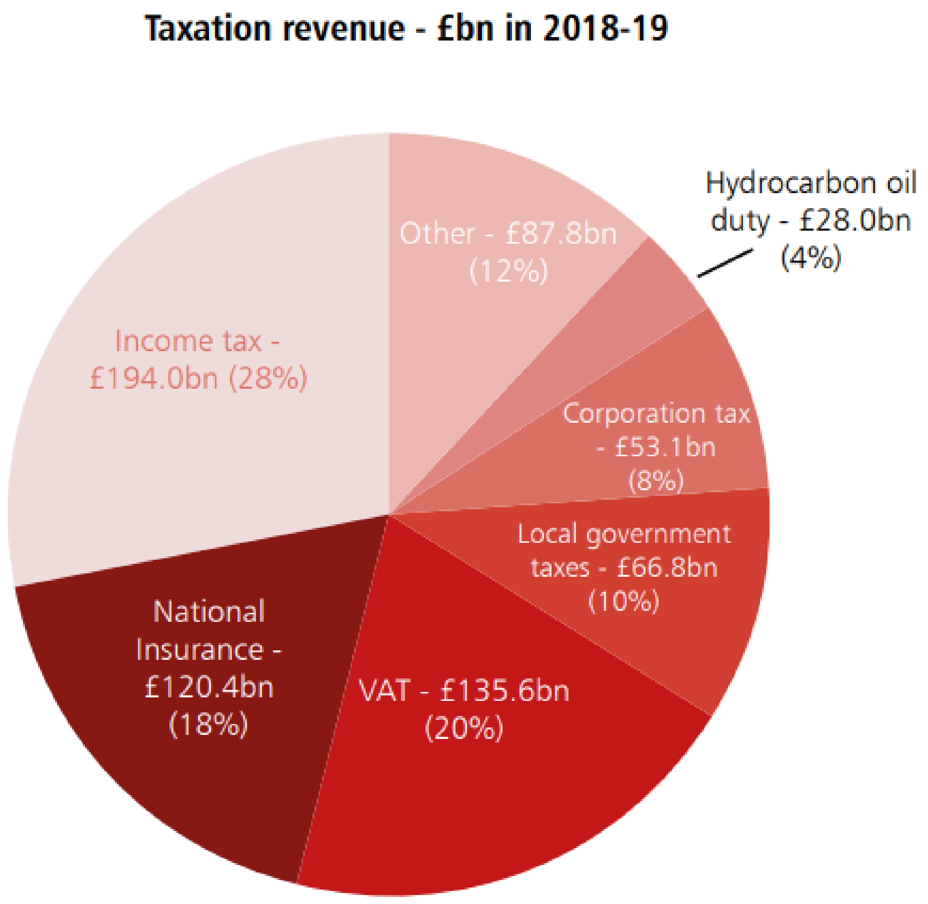


Tax income

Most government expenditure is financed through tax income. Most tax income is from individuals, with income tax and National Insurance levied on salaries and wages, and VAT and certain duties levied on consumption. Local taxes comprises of council taxes and business rates.

WGA income

In addition to tax income, government generates income from a wide variety of sources. Revenue from contracts is largely made up services provided by Local Authorities (£18.2 billion), with TfL accounting for £4.9 billion. Most EU income (£5.9 billion) is spent by Defra on payments under the Common Agri-cultural Policy. NHS income is made up of a variety of sources, including income from private patients (£0.6 billion).



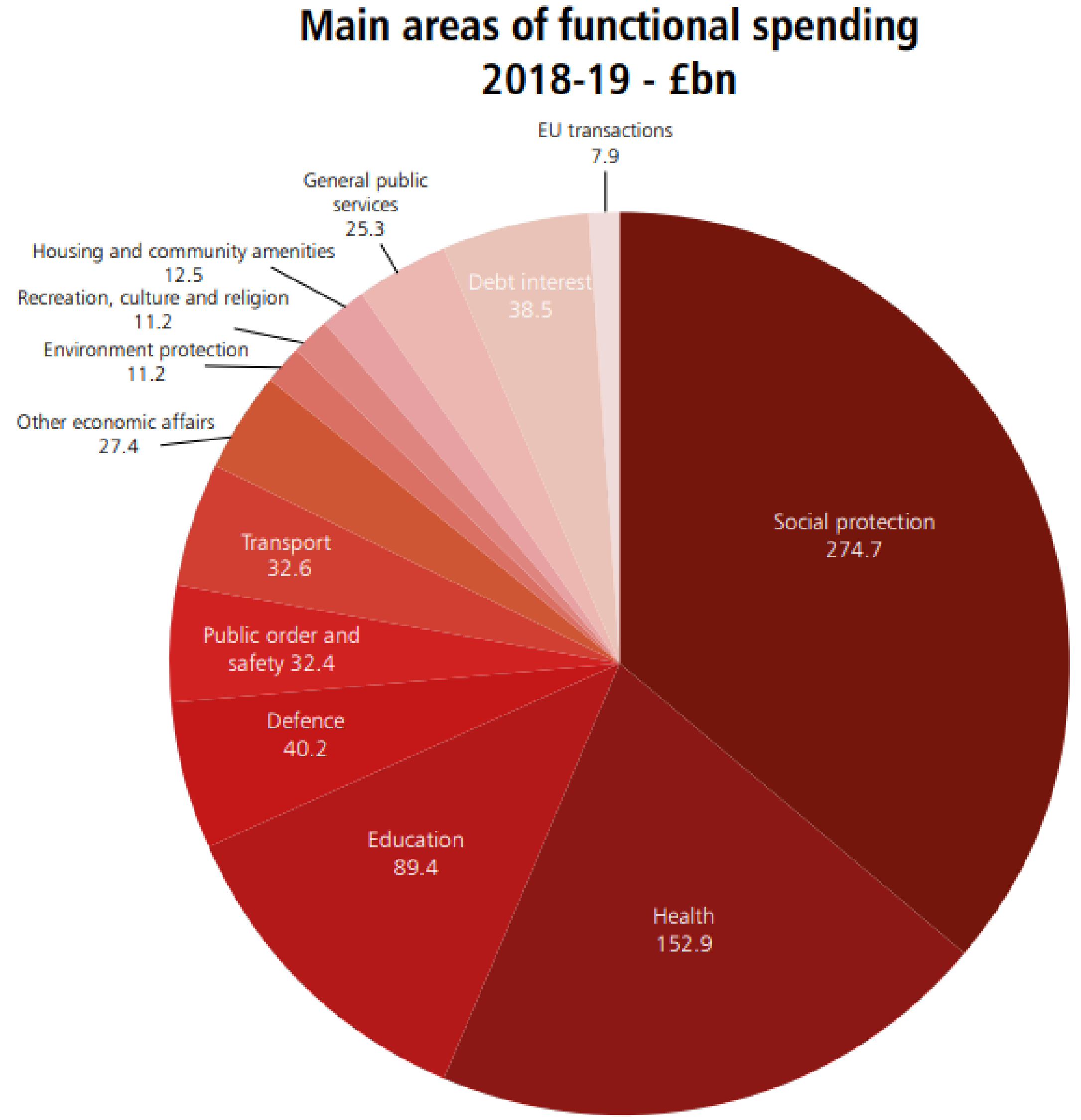
Notes:

a) Tfl is Transport for London

b) The UK left the EU on 31 January 2020, a transition period is in effect to the end of 2020.

Source: WGA 2018-19 page 17; see also Public Expenditure Statistical Analyses 2018 for further detailed breakdowns.
(Note: WGA is published in July the following year, at time of writing, the latest available is WGA 2018-19)

Whole of government accounts 2018-19 - expenditure



Source: Public Expenditure Statistical Analysis

Alternative views of expenditure

WGA breaks down expenditure by aggregating entities' spend into functional categories, e.g. staff costs, grants, purchase of goods and services.

Drilling down into further analysis has been challenging but the Treasury also publishes Public Expenditure Statistical Analysis (PESA) and Country and Regional Analysis, which provides an alternative functional insight and regional breakdown of public spending. This chart reports the PESA functional analysis for 2018-19. This can be reconciled to WGA total spend (see expenditure section for more detail).

Expenditure type	2018-19 (£bn)
Social security	230.3
Staff costs	255.7
Purchase of goods and services	206.5
Grants and subsidies	58.8
Debt interest	31.6
Other	68.9
Total expenditure on public services	**851.8**

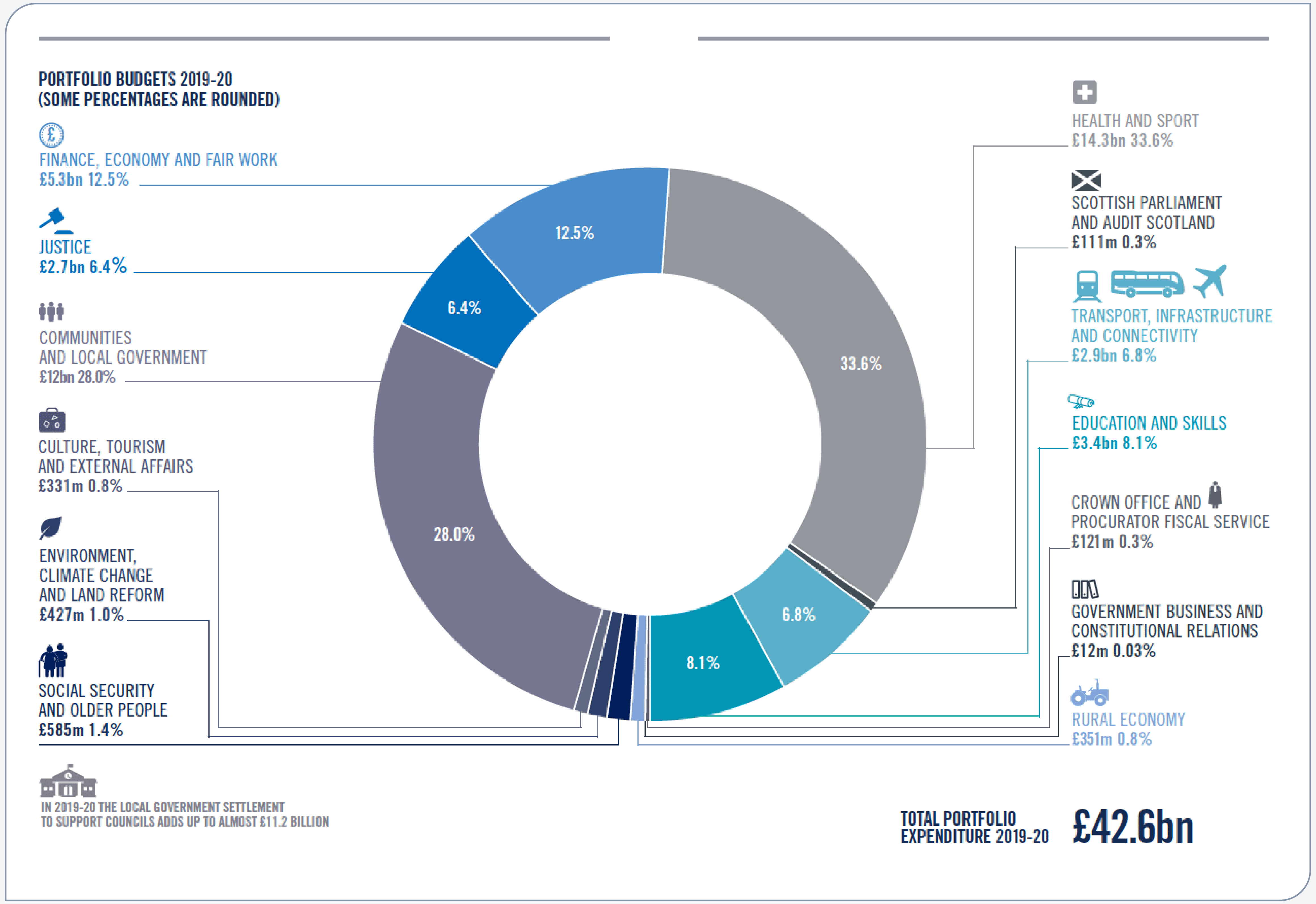
Source: WGA 2018-19 page 17; see also Public Expenditure Statistical Analyses 2018 for further detailed breakdowns.

Scotland's spending plans 2019–20

The largest components of Scottish Gov spend are health, local government and other Scottish Government services e.g. Finance, Economy and Fair Work, Education and Transport, Infrastructure and connectivity.

An overview of Scotland: Public spending and revenue (including the pandemic 2020/21) with comparisons against the rest of the UK is published by the UK parliament.

Budget process – additional information.

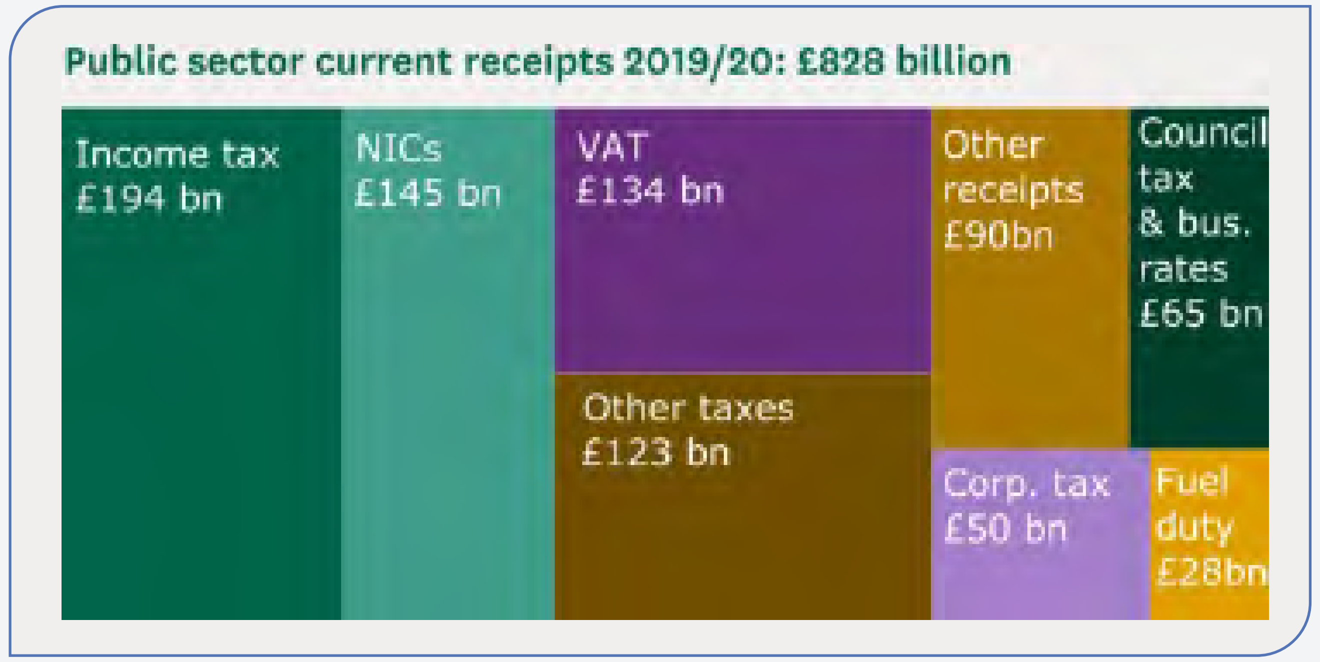


Source: Scotland's Finances: Key facts and figures for 2019-20

Taxes raised by government

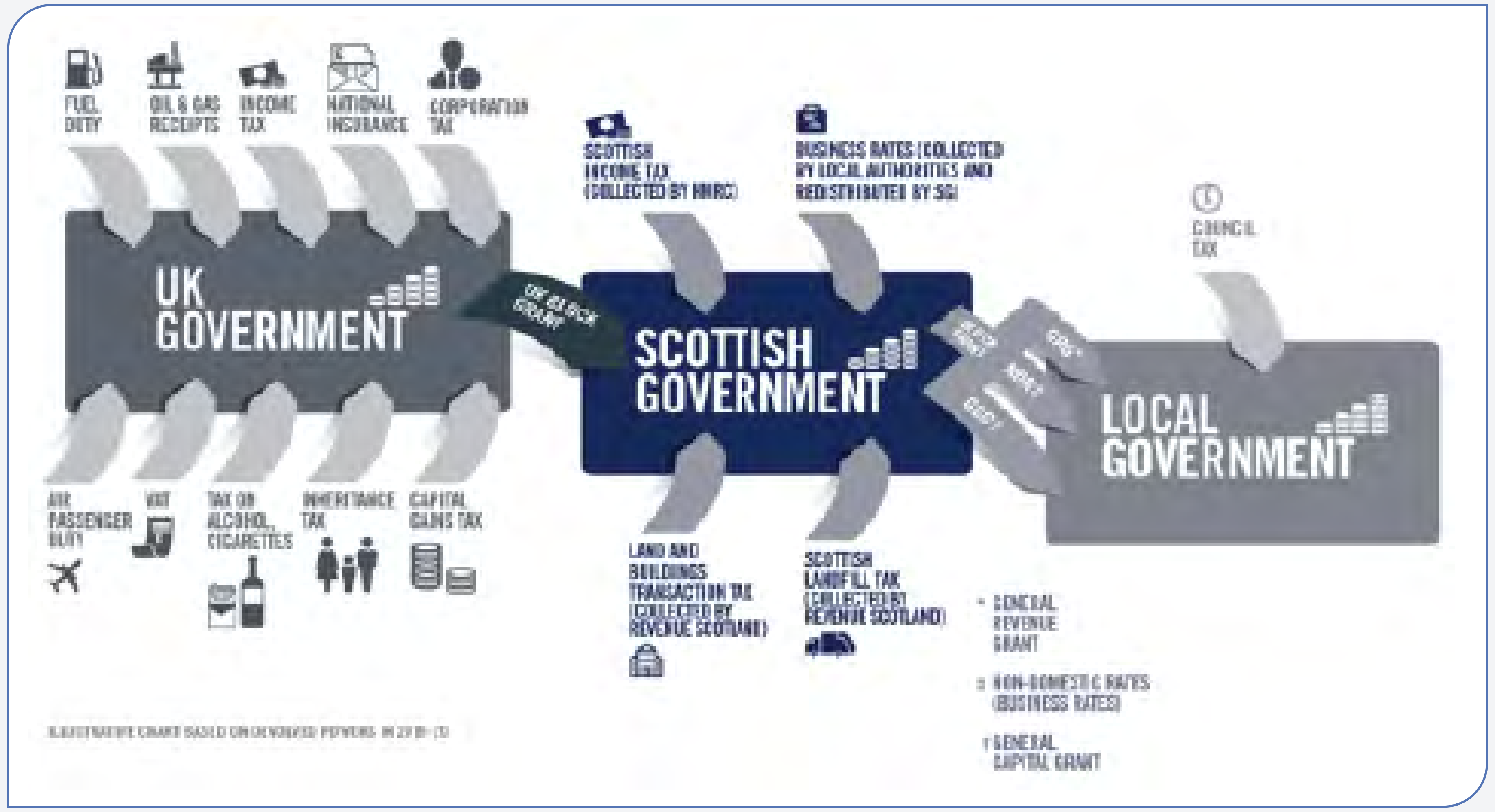
Taxes are raised by:

1. UK Government
2. Scottish Government
3. Local government



Scottish Government tax revenues 2019/20
£717m (LBTT and Scottish Landfill Tax only)

Council tax 2019/20
£2.559bn (billed)



Source:
UK https://commonslibrary.parliament.uk/research-briefings/cbp-8513/
Scotland Revenue Scotland accounts 2019/20
Local government https://www.gov.scot/publications/council-tax-collection-statistics-2019-20/

The Scottish Consolidated Fund and reporting

The accounts and why they use a cash-basis instead of IFRS

- The Scottish Consolidated Fund (SCF) originates in the Scotland Act 1998. Its operating rules are defined in the Public Finance and Accountability Act 2000 (PFA Act).
- The administration of the SCF sits within the Scottish Government (SG) but in terms of governance, it is not actually part of the SG.
- The duty to prepare SCF accounts is on the Scottish Ministers per s19(2) of the PFA Act. The requirement is for an account of "payments into and out of the Fund", which is understood to be a cash account (rather than the norm of IFRS accruals based accounts [hotlink slide 9]) and reflects the transactional nature of the SCF. It not a substitute for consolidated whole of government accounts which would be accruals (IFRS) based and include a narrative report and performance analysis.

Governance

- The SG Audit Committee is the audit committee comprising the non-executive directors who support the Principal Accountable Officer and the Accountable Officer within the SG (the Executive Team). They do not have a formal role in relation to the SCF however, the annual assurance process supports the SG Consolidated Accounts. They take an interest in the other accounts produced by the SG and particularly if there was any issue with their production or audit, but. The statutory position does mean that the SCF is a straightforward account.
- The Scottish Parliament Corporate Body has an Accountable Officer and is responsible for its own accounts. The parliament does not have a role in the administration of the SCF.

Audit and reporting

- SCF operational rules are detailed in the PFA Act and assign a role to the Auditor General. This states that sums can only be paid out in accordance with the PFA Act sections 4. On behalf of the Auditor General, Audit Scotland must certify payments as meeting the criteria, i.e. checking that they are within authorisation limits and for authorised purposes (PFA Act section 5).
- The PFA Act requires annual accounts to be audited and laid in the Parliament and published (this includes both the SCF and SG Accounts).
- It is the role of the Scottish Parliament's Public Audit Committee to consider accounts and related audit reporting; they tend to rely on Audit Scotland reports as the starting point. Current Audit Scotland practice is to produce a section 22 report alongside the SG Annual Accounts to raise any concerns arising from the audit. This prompts the public audit committee and would usually mean a committee appearance for the Permanent Secretary and colleagues.

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