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**Research Paper**

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**COMPARATIVE ANALYSIS:  
BUDGET SCRUTINY IN  
NORTHERN IRELAND AND  
OTHER LEGISLATURES**

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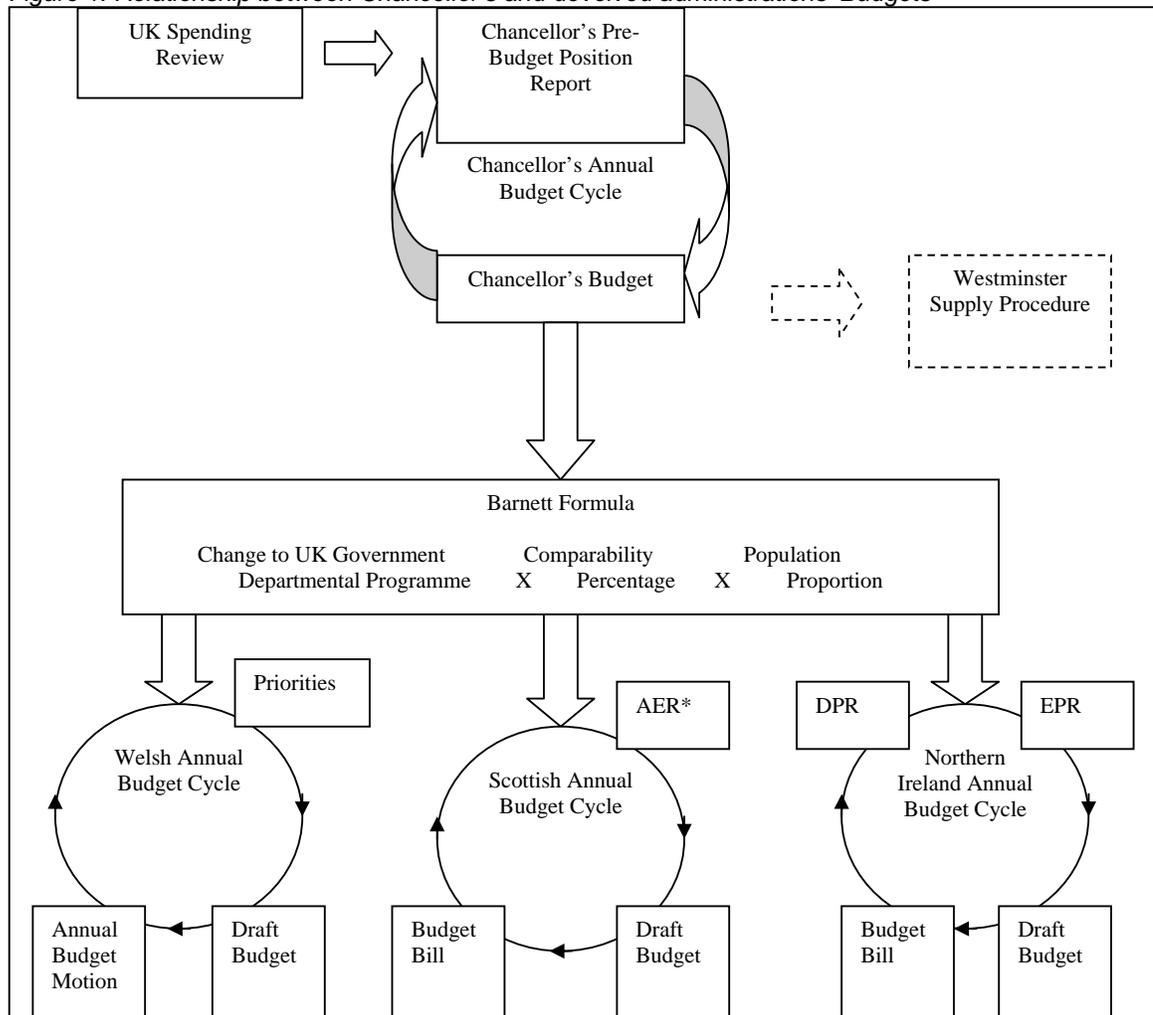
**INTRODUCTION**

This paper carries out a comparative analysis of budget scrutiny processes in Northern Ireland, Scotland and Wales<sup>i</sup>. It is intended to provide the necessary background to assist the Committee for Finance and Personnel in its contribution to the Department of Finance and Personnel's *Review of the NI Executive Budget Process*. The paper begins by highlighting the role of the legislature and committees in ensuring effective budget scrutiny. The scrutiny processes of the devolved administrations are then compared and a number of other considerations presented.

**BACKGROUND: THE UK BUDGET FRAMEWORK**

Government funding in the UK devolved administrations continues to be determined by central Spending Reviews. However, the *allocation* of public expenditure across services is under the control of the devolved administrations. The relationship between the Chancellor's Budget and those of the devolved administrations is depicted below:

Figure 1: Relationship between Chancellor's and devolved administrations' Budgets<sup>ii</sup>



\* This stage in the Scottish Budget Process occurs during spending years only

## **1. LEGISLATURE / COMMITTEE INVOLVEMENT: INTERNATIONAL COMPARISONS**

Before examining the budget and scrutiny processes of the devolved administrations in more detail, this section considers the extent and duration of legislature / committee involvement in other regions. This provides a context within which to consider the processes in Northern Ireland, Scotland and Wales.

### **1.1 THE ROLE OF THE LEGISLATURE IN SCRUTINY**

Legislative participation is becoming increasingly recognised as an essential component of effective budget scrutiny. Accordingly, there has been a recent resurgence in the influence of national legislatures therein<sup>iii</sup>. The role of a legislature in a budget process is to scrutinise and authorise revenues and expenditures, and to ensure the budget is properly implemented<sup>iv</sup>. If legislative participation is effective, it ensures essential checks, enhances openness, facilitates public debate, and provides a platform for wider input<sup>v</sup>. In practice, a legislature's engagement in the budget process depends upon two factors: its *powers of amendment*, and the extent to which these are exercised:

#### *1.1.1 POWERS OF AMENDMENT*

The scope for legislature involvement is fundamentally dependent upon its *powers of amendment*. These are usually contained in a country's written constitution; however they might also be based on convention / parliamentary rules or determined by ordinary legislation<sup>vi</sup>.

Generally, greater powers of amendment enable more legislature influence. The *extent* (and effect) of legislature engagement in budget processes varies; whereas some legislatures actually formulate the budget, others approve executive budget proposals without changes. The figure below describes the different types of legislature involvement:

*Figure 2: A Typology of the Budget Policy Impact of Legislatures*

**BUDGET-MAKING LEGISLATURES** have the capacity to amend or reject the budget proposal of the executive, and the capacity to formulate and substitute a budget of their own.

**BUDGET-INFLUENCING LEGISLATURES** have the capacity to amend or reject the budget proposal of the executive, but lack the capacity to formulate and substitute a budget of their own.

**LEGISLATURES WITH LITTLE OR NO BUDGETARY EFFECT** lack the capacity to amend or reject the budget proposal of the executive, and to formulate and substitute a budget of their own. They confine themselves to assenting to the budget as it is placed before them.

*Source: Wehner, J, Back from the Sidelines? World Bank 2004*

In practice, the first category of legislatures, 'budget-making', is rare, (the United States is one example - congress determines its own budget policy and ascertains departmental spending and taxation measures accordingly). The majority of legislatures tend to approve the Executive's budget after making only minor changes. Known as 'Budget-influencing legislatures', these include Scandinavia, Republic of Korea, most of continental Europe and Latin America.

At the other end of the spectrum are legislatures with little or no budgetary effect; where the draft budget is generally approved without changes. In these Westminster-type parliaments any successful amendment to the budget is perceived as a vote of no confidence in the government. Examples include Australia, Britain, and New Zealand. Figure 3 summarises the powers of amendment in OECD countries:

Figure 3 Formal Legislative Powers to Amend the Budget in OECD countries

Rights	Number (%)	Countries
Unlimited powers to amend the budget	17 (56.7)	Austria, Belgium, Denmark, Finland, Germany, Hungary, Iceland, Italy, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovakia, Sweden, Switzerland, USA
Amendment powers, but no power to change totals	3 (10)	Czech Republic, Mexico, Poland
Powers to decrease proposed expenditure / revenues	2 (6.7)	Canada, United Kingdom
No amendment powers	1 (3.3)	Greece
Other	7 (23.3)	Australia, France, Ireland, Japan, South Korea, Spain, Turkey
<b>Total</b>	<b>30 (100)</b>	

Source: OECD, Budget Practices and Procedures Survey, (2007)

#### 1.1.2 THE EXTENT TO WHICH POWERS ARE EXERCISED

This is the second determinant of legislature involvement:

Figure 4 Does the Legislature Generally Approve the Budget Presented by Government?

Country	No changes	Minor changes	Significant changes
Australia	X		
Austria		X	
Canada	X		
Czech Republic			X
Denmark			X
Finland		X	
France		X	
Germany		X	
Greece	X		
Hungary			X
Iceland		X	
Ireland		X	
Italy		X	
Japan	X		
Korea (Republic of)		X	
Mexico		X	
The Netherlands		X	
New Zealand	X		
Norway		X	
Poland		X	
Portugal		X	
Spain		X	
Sweden		X	
Switzerland		X	
Turkey		X	
United Kingdom	X		
United States			X
<b>Total (%)</b>	<b>6 (22%)</b>	<b>17 (63%)</b>	<b>4 (15%)</b>

Source: OECD, The OECD Budgeting Database, 2002

#### 1.1.3 THE DURATION OF LEGISLATURE INVOLVEMENT

Generally, the more time allocated to scrutiny, the greater the legislatures' potential influence. This varies considerably between countries; in the US, Congress spends at least eight months debating the Budget, whereas other legislatures only have one month. The international experience suggests that a national legislature requires a minimum of 3-4 months for effective consideration of the Budget.

## 1.2 THE ROLE OF COMMITTEES IN SCRUTINY

Assemblies can be divided into two categories on the basis of the extent of committee engagement; ‘working assemblies’ are committee-orientated, whereas ‘talking assemblies’ are chamber-orientated. The House of Commons is an example of a talking assembly, whereas the American Congress is better defined as a working assembly.

A committee orientated (or ‘working’) system is defined as encompassing *inter alia* three functions<sup>vii</sup>:

- Consideration of bills and financial proposals;
- Scrutiny of government administration and past expenditure;
- Investigation of matters of general public concern.

The importance of effective committee systems in the budget process is becoming increasingly acknowledged. Some legislatures have a separate finance or budget committee dedicated to this purpose; the rationale for this is the avoidance of ‘selfish’ scrutiny by the Subject Committees. Figure 5 summarises the different budget-related committee systems in OECD countries:

Figure 5: What is the committee structure for dealing with the Budget?

<b>Lower chamber</b>	Number	Percentage	Countries
<b>A single budget committee formally considers all budget-related matters.</b> Sectoral committees may make recommendations, but the budget committee does not have to follow them.	12	40.0	<i>Denmark, Finland, Germany, Greece, Iceland, Italy, Japan, Luxembourg, Poland, Portugal, Slovakia, Switzerland</i>
<b>A single budget committee formally considers the budget, but members from sectoral committees attend meetings</b> of the budget committee when expenditures in their specific areas are discussed.	3	10.0	<i>Austria, France, Turkey</i>
<b>A single budget committee formally considers budget aggregates</b> (total level of revenue and spending and their allocation to each sector) and <b>sectoral committees formally consider spending for sector specific appropriations.</b>	7	23.3	<i>Belgium, Czech Republic, Ireland, Norway, South Korea, Sweden, USA</i>
<b>Sectoral committees formally consider appropriations for each respective sector.</b> No budget committee is in place or it provides technical assistance only.	3	10.0	<i>Hungary, Netherlands, United Kingdom</i>
<b>No formal committee involvement,</b> but committees may choose to consider aspects of the budget.	0	0.0	—
<b>Other</b>	4	13.3	<i>Canada, Mexico, New Zealand, Spain</i>
<b>Missing</b>	1	3.3	<i>Australia</i>
<b>TOTAL</b>	30	100.0	

Source: <http://webnet4.oecd.org/budgeting/Budgeting.aspx>

### **1.3 DETERMINANTS OF EFFECTIVE BUDGET SCRUTINY**

The literature suggests that the effectiveness of committees in the Budget process depends on the following factors<sup>viii</sup>:

- *The location of amendment powers*, i.e. whether committees have powers of amendment
- *Time allocated to committee debate* relative to total time available for Budget consideration;
- *Committee involvement*, i.e. which committees are involved in the budgetary process and the relationship between them
- *Access to independent research capacity* and analysis by specialised research staff enables effective scrutiny
- *Access to departmental information* should be timely and should comprise that on the implementation and impact of the current Budget and the development of future Budgets.

## **2. COMPARATIVE ANALYSIS - NORTHERN IRELAND, SCOTLAND AND WALES**

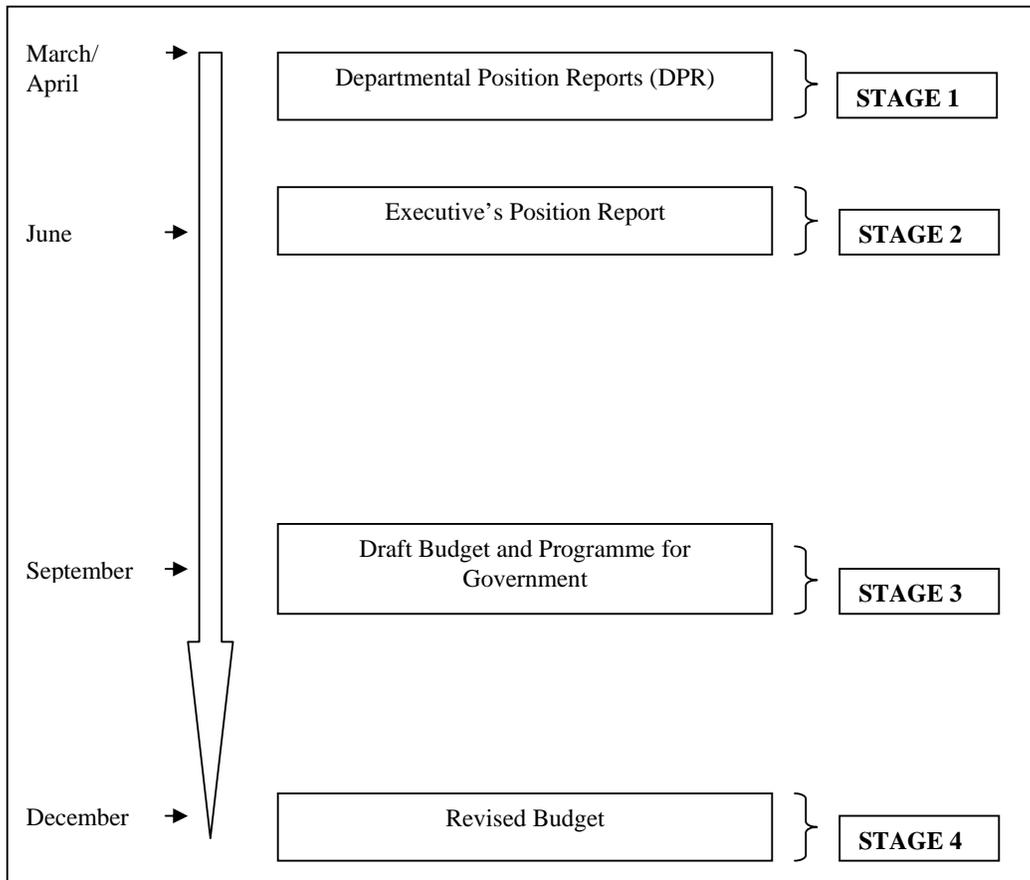
This section presents information on the comparative practices of budget scrutiny in Northern Ireland and the other UK devolved administrations. The Republic of Ireland (ROI) is excluded from the analysis since the relatively weak budgetary powers held by the Dail render it less applicable. Parliamentary involvement in the Irish budget is limited; the Cabinet's proposals cannot be amended and committees' scrutiny is limited<sup>ix</sup> – the most influential committee is the Public Accounts Committee, which is concerned ex post budget execution rather than the ex ante budget<sup>x</sup>.

Accordingly the comparative analysis is restricted to a consideration of budget scrutiny in Northern Ireland, Scotland and Wales.

### **2.1. THE BUDGET IN NORTHERN IRELAND**

The Budget process in Northern Ireland consists of four stages; it is summarised in the diagram below:

*Figure 6: The 'Normal' NI Budget Process<sup>xi</sup>*



### 2.1.1 THE ROLE OF COMMITTEES DURING THE BUDGET PROCESS

The role and remit of committees within the Northern Ireland Assembly are set out in the Belfast Agreement; the Northern Ireland Act 1988; and the Standing Orders of the Northern Ireland Assembly. Statutory Committees have a statutory duty to scrutinise the departmental budgets as set out in paragraph 9 of Strand One to the Belfast Agreement<sup>xii</sup>:

*“(Committees) will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation.”*

Amongst the powers granted to committees are those to:

*“...consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation...”*

The committees are involved at various stages:

- *Departmental Position Reports (DPR)* mark the first stage of the process, which occurs in March / April. Committees have an opportunity to receive an oral or written briefing from their department and consult upon the DPR. Following the period of consultation, committees provide feedback to their department, who then submit DPRs to DFP in April.

- The *Executive's Position Report* (EPR) is issued jointly by DFP and OFMDFM in June. The EPR summarises each department's position report and allows for consultation with committees, etc. in advance of the preparation of the Draft Budget and Programme for Government. This is the stage to reflect upon the relative priority attached to different policies and programmes, and the scope for reducing services or improving them through efficiency improvements. The committees are briefed by departmental officials once again, and consult as they see fit. CFP coordinates committees' responses to the EPR and submits these to DFP in August.
- *The Draft Budget and Draft Programme for Government* (PfG) are produced in September. The PfG provides an overview of the strategic issues to be addressed by the Executive and determines resource allocation decisions. At this stage the Executive consults with committees and the general public on both documents. CFP coordinates committee responses, initiates a 'take note' debate in the Assembly in mid-November and publishes a report at the end of November.
- The *Revised Budget* is introduced by the Minister of Finance and Personnel in mid-December. Once this is agreed by the Assembly the scope for committee involvement is more limited:
- *The Budget Bill No. 1* incorporates Spring Supplementary Estimates and Vote on Account, and is introduced in the Assembly in February. There is limited opportunity for any amendments at this stage; the bill must reflect the figures agreed in the Revised Budget and mirrored in the Main Estimates/Supply Resolution.
- *The Budget Bill No. 2* incorporates the Main Estimates and Supply Resolution, and is introduced in the Assembly in June. Again, there is limited scope for amendment. Both bills may proceed by accelerated passage subject to the provisions of Standing Order 40 (2); this provides that accelerated passage is acceptable if the Chairperson of CFP (or someone acting on his/her behalf) can confirm that they are content that sufficient consultation has taken place.

Committees have additional scope for budget scrutiny at quarterly monitoring rounds and in assessing progress in the achievement of PfG targets and Public Service Agreements (PSAs). They are also afforded the opportunity to scrutinise departmental bids for Executive Programme Funds (EDFs) and particular business areas within their respective department.

The Committee for Finance and Personnel is specifically responsible for coordinating budget scrutiny by the Assembly. The following specific steps were taken to facilitate scrutiny of Draft Budget 2008-11<sup>xiii</sup>:

- Provision of an information seminar for MLAs and officials on the 'Assembly's Role in the Annual Budget Process'
- Commissioning the views of the other Assembly statutory committees on the draft budget allocations for their respective departments;
- Receiving a briefing on the draft Budget by the Minister;
- Taking evidence from DFP officials on strategic and cross-cutting budgetary issues;

- Tabling a motion for a ‘take note’ debate in plenary on the Draft Budget;
- Publishing a coordinated report on the draft Budget on behalf of all the Assembly statutory committees.

### 2.1.2 PERCEIVED SHORTCOMINGS OF THE MOST RECENT PROCESS

In its “*Report on the Executive’s Draft Budget 2008-11*”, the Committee for Finance and Personnel (CFP) highlighted a number of perceived shortcomings with the recent budget process. Associated recommendations are outlined below:

- *“The Committee echoes the call, made by a number of the Assembly statutory committees, for a closer alignment between the revised Budget and the revised PFG .... a more visible linkage is required between PFG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in the Budget”.*
- *“The Committee considers that there would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments’ bids and their outcomes. ...as part of the draft Budget process.”*
- *“The Committee considers that the future budget process and timetable needs to be settled early in 2008 to enable the Assembly statutory committees to schedule the necessary scrutiny into their work programmes.”*

## 2.2. THE BUDGET IN WALES

The Budget process in Wales was recently amended by the Government of Wales Act, 2006. This section outlines the stages of the process, per the original Act, and highlights the key implications of the new legislation.

### 2.2.1 The Budget Process under the Government of Wales Act 1998

The Budget process provided for by the 1998 Government of Wales Act<sup>xiv</sup> was designed to enable the Assembly to distribute block grant resources according to spending priorities. This was achieved by plenary voting to approve the Budget proposed by the Finance Minister. The three stages of the process were as follows<sup>xv</sup>:

- **Stage One – Consultation on spending priorities.** Per Standing Order 21.2, Subject Committees were invited to submit their views on expenditure priorities for the forthcoming budget period.
- **Stage Two – Draft Budget.** Standing Order 21.3 required the Finance Minister to lay a draft budget (consisting of proposed allocations for the budget period) before the Assembly prior to 15 November and to table a take note motion.
- **Stage Three – Final Budget.** Per Standing Order 21.4, the Finance Minister was obliged to lay a final budget before the Assembly prior to 10 December and table a motion that it be adopted by the Assembly. A supplementary budget could be tabled prior to the end of the financial year, identifying any changes to the final budget<sup>xvi</sup>.

In terms of Budget presentation, documents showed allocations across a series of Main Expenditure Groups (MEGs) which broadly corresponded to Ministerial Portfolios. MEGs were then delineated into Spending Programme Areas (SPAs) and

these were further sub-divided into Budget Expenditure Lines (BELs). These delineations did not strictly operate as control totals; Standing Orders 21.6 and 21.7 stipulated that only changes to the Main Expenditure Groups required the approval of the Assembly in plenary.

With regards to Budget scrutiny, Standing Order 21 required committees to undertake specific functions at pre-determined points in the cycle. The main role of committees was the expression of priorities in May/June and consideration of the Draft Budget in October/November<sup>xvii</sup>. Following completion of the Draft Budget stage, Standing Orders required no further input from Subject Committees. However, under Standing Order 9.7(ii), Subject Committees were required to “*keep under review the expenditure and administration connected with*” policies within their portfolio.

### 2.2.2 Changes Arising from the Government of Wales Act 2006

Budget scrutiny under the 1998 Act was constrained by the fact that committees, and their operation, were required to reflect Ministerial portfolios. Furthermore, committees ability to effectively scrutinise was considered to be compromised by difficulties in ‘reading across’ from the beginning (the Assembly budget) to the end (National Assembly of Wales Resource Accounts). In 2006, a Welsh Assembly School Funding Committee report recommended that<sup>xviii</sup>:

*“To improve transparency and budget scrutiny, the Assembly Government should make arrangements to permit relevant committees to scrutinise the local government finance budget...”*

The Government of Wales Act 2006 provided the National Assembly with the means to adapt Standing Orders to enable the implementation of the committee’s recommendation<sup>xix</sup>. Under the 2006 Act, the reconstituted Welsh Assembly no longer has executive functions; these are conferred directly on Ministers. Part 5 of the 2006 Act made Ministers accountable to the Assembly for the exercise of executive functions .....requires them to obtain Assembly approval for the use of resources.

To facilitate the new arrangements, the act created a Welsh Consolidated Fund (WCF), which is a bank account held with the Paymaster General. The block grant from the Secretary of State is paid into the WCF and amounts may only be issued if the Assembly has passed a budget motion to that effect<sup>xx</sup>.

### 2.2.3 Key Implications for Budget Scrutiny

The budget motion requirement of the 2006 Act and the creation of the WCF strengthened the role of Assembly members in relation to the Budget; essentially they have enhanced powers of amendments. From the 2007-08 financial year onwards, Members *authorise* the drawdown and use of resources for purposes outlined in the resolution. This is a considerable transition from their previous role (per the 1998 Act) of *adopting* allocations proposed by the Government<sup>xxi</sup>.

Another amendment which is intended to improve scrutiny is the fact that the 2006 Act requires Budget motions to be submitted in a form that is comparable with the eventual resource outturn; they must set out:

- The amount of resources which may be used in the financial year for the services and purposes set out in the motion;
- The amount of accruing resources that may be retained to be used on the services / purposes specified (rather than being paid into the WCF);

- The amount which may be paid out of the WCF in the financial year for the services and purposes specified.

In terms of committees' involvement, Standing Order 12.1 of the third Assembly states that<sup>xxii</sup>:

*"There must be scrutiny committees with power within their remit to examine the expenditure, administration and policy of the government and associated public bodies."*

The Business Committee is responsible for determining titles of / remits for committees and ensuring that:

*"...every area of responsibility of the government and associated public bodies is subject to the scrutiny of a scrutiny committee"*

The role of the Finance Committee is to consider, and report on:

- Any report or document laid before the Assembly containing proposals for the use of resources, including budget motions and supplementary budget motions;
- The estimates of income and expenses prepared by the Ombudsman;
- The use of resources and payments out of the WCF.

Additionally, the Finance Committee may choose to comment on the timetable for the consideration of budget proposals / motions.

The Scrutiny and Finance Committees have the opportunity to input at the draft budget stage of the Budget process. There is no opportunity for plenary debate until the Finance Committee has produced its report on the Draft Budget (within 4 weeks of introduction). Subject committees can consider the draft budget and make related recommendations to the Finance Committee (within 2 weeks). In its report, the Finance Committee may recommend (net zero) changes to the Draft Budget

The Assembly must then consider (within 2 weeks) a take note debate. Amendments to the motion may only be tabled if they are net zero proposals. An annual budget motion is then tabled on or before the 3 December. It is not possible to table any amendments at this stage; Members' options are limited to abstaining, or voting to support or oppose the motion to authorise the budget as it stands.

### 2.3 THE BUDGET IN SCOTLAND

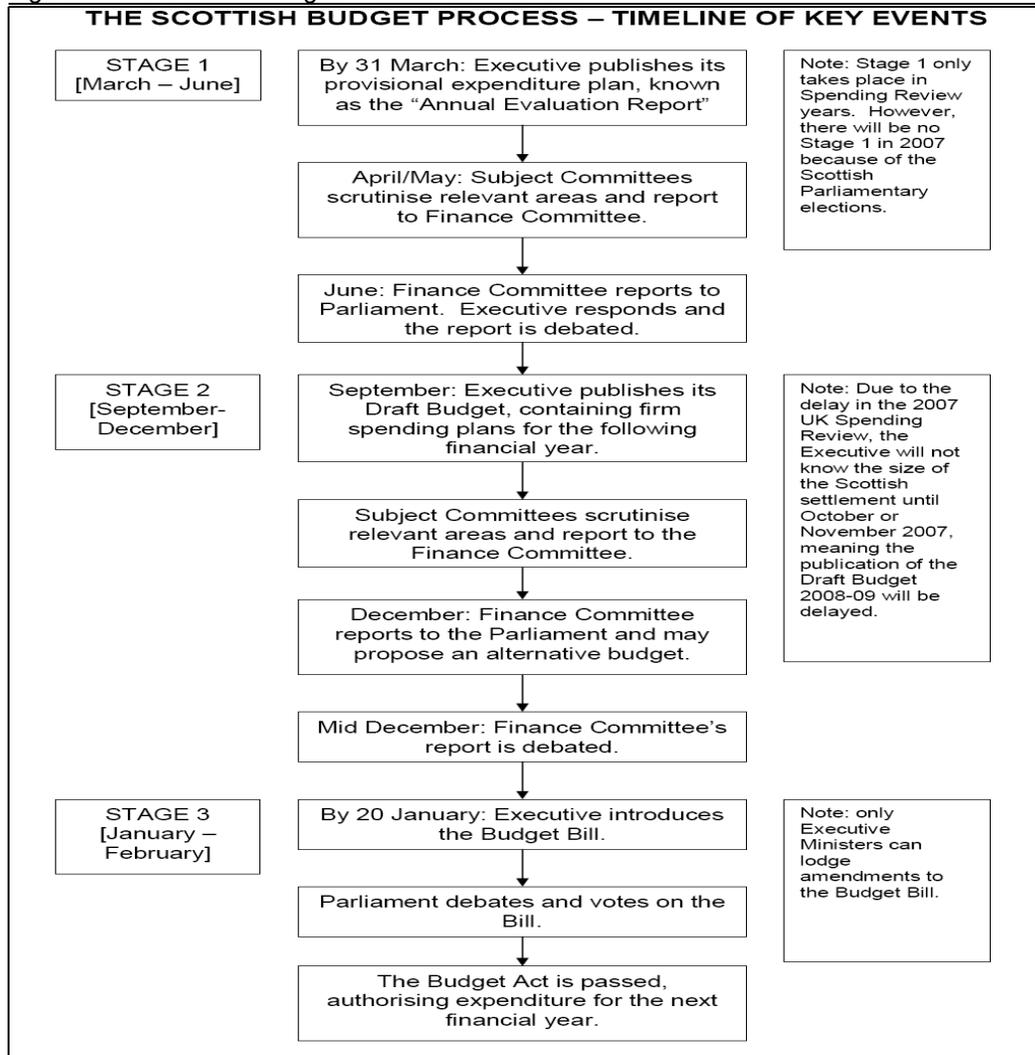
The budget process in Scotland originates from the recommendations of the Financial Issues Advisory Group (FIAG)<sup>xxiii</sup>. The process is based on a two year cycle, centred around the biennial spending review. In spending review years, the process is a three stage one; however in non-spending review years (when there are limited amendments to the budget) the first stage is omitted.

The three-stage process is as follows<sup>xxiv</sup> (and is summarised in Figure 4 below):

- **Stage One – Annual Evaluation Report (AER).** The AER (which, as stated above, only occurs in spending review years<sup>xxv</sup>) focuses on strategic issues and provisional spending plans. The document includes a performance report which shows progress against targets from the previous spending review. This is a consultation document to which committees, the public and outside bodies are invited to respond. The Finance Committee co-ordinates the responses and produces a report which is debated in June.
- **Stage Two – Draft Budget.** Responses received in Stage One are considered and spending plans prepared accordingly. The Draft Budget is published in September / October<sup>xxvi</sup>. Once again, parliamentary committees are consulted for their opinion; Subject Committees assess whether or not the relevant recommendations, (per Stage One), have been incorporated and report their findings to the Finance Committee. The Finance Committee can propose changes to the Budget at this stage (this may contain proposals for an alternative budget– provided that the changes have a zero net effect on expenditure levels). Parliament then debates a motion tabled by the Finance Committee on its report.
- **Stage Three – Budget Bill.** The final stage of the process provides parliamentary authority for spending in Scotland for the following financial year. The Budget Bill must be introduced by 20 January each year and the has three stages in itself (as with other Scottish legislation), however given the level of scrutiny at stages 1 and 2 of the process it is passed more quickly than other bills. Only members of the Scottish Government can propose changes to the Budget Bill. Despite this, Parliament can vote down the Bill in its entirety at Stages 1 or 3 of the Bill process. If the Budget Act is not in place by the end of the financial year, the Public Finance and Accountability Act allows for expenditure to continue at the same rate as the previous year for previously approved projects

The timings of the different stages of the Scottish budget process are occasionally affected by proceedings at Westminster. Stage 1 of the Budget Process did not occur in 2007, despite it being a Spending Review Year, due to the postponement of the 2006 Comprehensive Spending Review until 2007 and the clash with Parliamentary elections. The delayed publication of the UK Spending Review also meant that the Scottish Spending Review and Draft Budget were not published until published on 14 November 2007.

Figure 7: The Scottish Budget Process Summarised



Source:

<http://www.scottish.parliament.uk/s3/committees/finance/budget/documents/TimelineOfKeyEvents1.pdf>

### 2.3.1 The Role of Committees and the Parliament in Financial Scrutiny<sup>xxvii</sup>

Post devolution, committees gained a remit to consider financial proposals and administration of the Scottish Executive which relate to or affect any competent matter. Resultantly, subject Committees are responsible for scrutinising the relevant section of the AER and for scrutinising the draft budget.

The scrutiny process involves seeking written and oral evidence from Ministers, senior officials and other individuals and organisations. The Scottish Ministers report (to Parliament) the results of any public consultations on expenditure proposals. The Finance Committee is responsible for co-ordinating other committees' responses and reporting to the Parliament. The roles of the Finance and other committees during the various stages of the budget are as follows:

#### 2.3.1.1 Stage One

Parliament takes a strategic look at this stage, consults with the public and makes recommendations to the Executive. To ensure that Parliament is sufficiently informed, the Scottish Ministers undertake to submit a provisional expenditure plan by the 31 March each year. Committees comment on their respective allocations.

This stage is essentially a matter for Parliament, however Ministers endeavour to facilitate any committee requirements for information. Subject committees submit their responses to the Finance Committee, whose report is submitted and subsequently debated in plenary.

#### 2.3.1.2 Stage Two

At this stage, Parliament assesses whether the Executive has incorporated the input provided at stage one. The Finance Committee again co-ordinates responses on expenditure proposals and produces a report. The Finance Committee has the authority to propose an alternative budget at this stage, provided that the total spend is the same as under the existing budget. Other committees can also table motions and amendments at this stage – the Parliamentary Bureau determines which are put forward for consideration by the Parliament.

#### 2.3.1.3 Stage Three

Given the extent of pre-legislative scrutiny, the passage of the Budget Bill is accelerated. Only a member of the Executive can propose amendments at this stage of the process. Parliament can not vote on the Budget bill until 20 days have elapsed from the date it was presented, but must do so within 30 days<sup>xxviii</sup>. Parliament votes to pass or reject the Bill in its entirety.

#### 2.3.2 Recent Development: Alternative Proposal Powers Exercised

The Scottish Finance Committee recently exercised, for the first time, its power to propose an alternative budget. There had been a previous incidence of a substantive alternative budget proposal in the past (the proposal was that additional funding be allocated to compensating Hepatitis C victims), but this deemed to be lacking an evidence base and thus not accepted by the committee.

The recent amendment proposal was that the level of police recruitment be increased beyond that being proposed. The Finance Committee put it to the Government to determine where associated reductions in expenditure might be made. When the Budget Bill was passed by the Parliament, an extra £10 million was allocated to police recruitment and an additional £4.3 million to “address climate change” (this was not recommended by the Finance Committee). Refer to Annex 1 for further details – the letter from the Cabinet Secretary outlines the full list of changes.

#### 2.3.3 The Ongoing Review of the Scottish Budget Process

In November 2007, the Scottish Parliament agreed that the processes of, and resources available for, financial scrutiny should be reviewed<sup>xxix</sup>. Central to the review is a reconsideration of the provision for the Finance Committee to put forward alternative budget proposals and the capacity/resources needed to exercise this. Other specific issues under consideration include<sup>xxx</sup>:

- The best way to organise scrutiny of the Draft Budget
- The best way to deal with any delays in future UK Spending Reviews
- The balance of responsibility between the subject and Finance committees
- Is the time currently available for scrutiny adequate?
- Would there be merit in having a “Parliamentary Budget Office”?<sup>xxxi</sup>

### 2.4 HOW DOES NORTHERN IRELAND COMPARE?

As highlighted in Section 1.3 the literature suggests that committees’ effectiveness in the Budget process is determined by<sup>xxxii</sup>:

- *The location of amendment powers*, i.e. whether committees have powers of amendment
- *Time allocated to committee debate* relative to total time available for Budget consideration;

- *Committee involvement*, i.e. which committees are involved in the budgetary process and the relationship between them
- *Access to independent research capacity* and analysis by specialised research staff enables effective scrutiny
- *Access to departmental information* should be timely and should comprise that on the implementation and impact of the current Budget and the development of future Budgets.

Accordingly, the table below assesses how Northern Ireland compares in each of these areas:

*Figure 8: Determinants of Effective Scrutiny: Comparative Analysis*

Factor	Comparative Position in NI
<i>The location of amendment powers</i>	Unlike in NI (and Wales), the Scottish Finance Committee can suggest an alternative budget at stage 2 of the process. In this respect, the Scottish committee has greater powers of amendment.
<i>Time allocated to committee debate</i>	<p>The NI Draft Budget is produced in September and the CFP report must be completed by the end of November. The Committee for Finance and Personnel has recommended that:</p> <p><i>“...the future budget process and timetable needs to be settled early in 2008 to enable the Assembly statutory committees to schedule the necessary scrutiny into their work programmes.”</i></p> <p>However, the current schedule is the same as that in Scotland; the Draft Budget is introduced in September and their Finance committee reports at the end of November.</p> <p>In Wales, there is less time allocated to committee scrutiny of the Draft Budget; the Finance Committee produces its report within 4 weeks of introduction. Subject committees can consider the draft budget and make related recommendations to the Finance Committee (within 2 weeks). The Assembly must then consider (within 2 weeks) a take note debate and an annual budget motion is tabled on or before the 3 December.</p>
<i>Committee involvement</i>	The Northern Ireland Assembly has a strong committee system. The remit of NI committees is broader than that of the Statutory Committees of the Scottish Parliament. Local committees have a policy development and scrutiny role linked to departments, and are charged with both ‘advising and assisting’ in the formulation of policy and ‘considering and advising’ on departmental budgets and plans <sup>xxxiii</sup> . As in Scotland, the Committee for Finance and Personnel co-ordinates input from subject committees.
<i>Access to independent research capacity</i>	In Scotland, there is a budget for “external research” when the need arises. There is also a standing budget advisor and subject committees are entitled to appoint a budget advisor also. These facilities do not currently exist in Northern Ireland. (Stage 2 of the Committee for Finance and Personnel’s inquiry will consider the issue of resources available to assist in budget scrutiny)
<i>Access to departmental information</i>	The CFP’s report on Draft Budget 2008-11 highlighted the view of other committees that there:

	“...would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments’ bids and their outcomes. ...as part of the draft Budget process.”
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### 3. OTHER CONSIDERATIONS

#### 3.1 LESSONS FROM (ONGOING) SCOTTISH REVIEW

Professor Arthur Midwinter (Budget Advisor to the Scottish Finance Committee) responded to the consultation on the review of the Scottish budget process, recommending that parliamentary input be strengthened by developing more relevant information. He distinguished between problems occurring in Stages 1 and 2 of the budget process and outlined problems / recommendations accordingly:

##### Stage 1

- Stage 1 of the Scottish budget process should occur every second year and focus on the Annual Evaluation Report (AER). This stage allows performance to be assessed against past targets and a consideration of future strategic priorities.
- Strategic priorities should be based on major crosscutting issues;
- The document should show how Executive’s objectives have determined budgetary allocations
- Problem with current process: there is no *direct link* between budgets and outcomes<sup>xxxiv</sup>
- A key objective of the Finance Committee is to scrutinise how the Executive’s *objectives* are met by the budgetary *allocations*, so the Budget should clearly demonstrate the determination of allocations;

*“In an effective outcome budgetary system...it would be expected to see clear and explicit logic links between high level outcomes, intermediate outcomes, output measures, actions, input measures and budget resources<sup>xxxv</sup>.”*

- Systematic linkage and alignment between resources and results are highlighted as essential in enabling effective scrutiny;

##### Stage 2

Stage 2 is concerned with the authorisation of (or formulation of alternatives to) the Executive’s detailed spending proposals<sup>xxxvi</sup>.

- Professor Arthur Midwinter highlighted the fact that changes to the budgetary format, including the removal of certain information<sup>xxxvii</sup>, made it more difficult to monitor changes. He suggests that this “*makes it easier for the Executive to evade scrutiny*”

Professor Midwinter is of the opinion that the Scottish Parliament has endorsed a Budget format which has reduced both the volume and transparency of budgetary information.

#### 3.2 THE CASE FOR / AGAINST PUBLIC ENGAGEMENT IN THE BUDGET PROCESS

There are pros and cons associated with permitting public involvement in *budget scrutiny*. The OECD suggests that, to ensure Budget transparency, the Executive should actively promote an understanding of the budget process by individual

citizens and non-governmental organisations<sup>xxxviii</sup>. Public hearings provide a structured approach to opening budget debate to experts from academia, civil society and the private sector. This transparency can also help to build trust in government<sup>xxxix</sup>.

However, critics argue that legislative deliberations should remain secret otherwise decision making will be relocated to other (private) forums, such as working groups. Nonetheless, there appears to be a lack of evidence to substantiate this claim; no legislature that has opened its proceedings to the public has subsequently reversed its decision to do so<sup>xl</sup>.

Public Engagement can be encouraged via passive or interactive approaches. Annex 2 outlines examples of how public engagement is encouraged / facilitated in other regions.

### ***3.3 WHAT DOES THE LITERATURE PRESCRIBE FOR STRENGTHENING COMMITTEE INVOLVEMENT?***

The literature suggests that the following specific reforms could be useful in strengthening committee involvement:

- Establishing a comprehensive system of financial committees;
- Introducing public hearings on the budget;
- Boosting the numbers of support staff; and
- Expanding the time for committee consideration of the draft budget in order to facilitate more in depth scrutiny

## ***ANNEX 1***

Cabinet Secretary for Finance and Sustainable Growth  
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Andrew Welsh MSP  
Convener  
Finance Committee  
Scottish Parliament  
Edinburgh  
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January 2008

I have today lodged amendments to the Budget Bill. However, given the presentation of the amendments, I thought it would be helpful if I provided an explanation to the Finance Committee of the difficult decisions we have taken to amend our spending plans following the Finance Committee report and having listened to members at the Finance Committee and in Parliamentary debates.

In summary:

- the Justice portfolio increases by an overall £8 million;
- the Rural Affairs and the Environment portfolio to increase by £4.289 million;
- the Finance and Sustainable Growth portfolio to reduce by £7.289 million; and
- the Health and Wellbeing portfolio to reduce by £5 million.

The amendments provide additional funding for two specific budget lines. The first provides an additional £10 million for police recruitment. The second provides an additional £4.3 million to address climate change.

The £10 million for 2008-09 for police will be followed by additional funding of £13 million in 2009-10 and £17 million in 2010-11. This overall package of a further £40 million over the three years, in addition to the £54 million already announced as a first step, will allow the direct recruitment of an additional 1,000 police officers by March 2011. This is in addition to substantial increases in capacity that we are expecting to see through improved retention and reinvestment of efficiency gains to support redeployment of officers to enhance operation policing in Scotland's communities.

For the purpose of the Budget Bill process, we need only consider the funding relating to 2008-09, and therefore, I set out below how we will fund that £10 million.

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
[www.scotland.gov.uk](http://www.scotland.gov.uk)

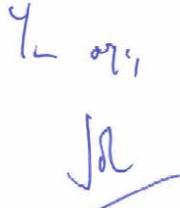


Firstly, we will reprofile the Prisons budget to release £2 million. SPS will seek to build on its excellent track record of delivering efficiency savings to deliver this budget adjustment. We will also closely monitor the prisoner population during 2008-09. Secondly, we will reduce the Motorways and Trunk Roads Network Strengthening and Improvement budget by £3 million. No major roads projects will suffer in terms of this budget amendment but it will have an impact on the timescale of delivery of structural road maintenance and the Intelligent Transport Systems 5 year action plan. Finally, we will reduce the eHealth budget by £5 million. We will do this by reprofiling the expenditure for this forthcoming strategy, which will improve patient safety and clinical outcomes, ensuring that IT systems support the delivery of modern healthcare.

The additional £4.289 million for climate change recognises the increased level of effort required within and outwith government to deliver our Greener Scotland commitments, including our ambitious climate change targets. Communities, for example, have a key contribution to make in tackling climate change: the additional funding will be used to further encourage communities to drive forward the climate change and sustainable development agenda. We will be working with a range of partners, including the third sector and community organisations, to support innovative initiatives to reduce carbon emissions. Providing additional resources in this way demonstrates the level of our commitment to tackling climate change and to achieving sustainable economic growth.

This will be funded by repayment by Registers of Scotland (RoS) of its Public Dividend Capital (PDC). The PDC was provided when RoS was set up as a Trading Fund in order to provide funding until it was generating sufficient income to cover its costs. As ROS has now achieved this, we are able to agree repayment of the PDC.

I hope that you find this explanation useful and look forward to the Stage 3 debate on the Budget Bill next week.

  
JOHN SWINNEY

**ANNEX 2:**

**2.1 A Passive Approach as adopted by the Canadian Department of Finance:**

**Where your tax dollar goes** Fiscal year 2005 - 2006 links

**Introduction**

For the fiscal year ending March 31st 2006, Canada's federal government collected \$222.2 billion in taxes and other revenues.

That represents a bit over 16 per cent of our country's nearly \$1.4 trillion economy.

Here's a quick overview of where that money went—and how it was raised.

And you can find additional details on specific areas by clicking the More About links that will appear at the bottom of

**\$222.2 billion Collected in Taxes and Revenues**

More about these numbers... back pause play next legend

Source: <http://www.oecd.org/dataoecd/24/51/39894468.pdf>

**2.2 HM Treasury provides an example of a more interactive approach:**

**HM TREASURY**

**Spending review game: set your budgets**

Home > Where is taxpayers' money spent? > Spending review game

**What overall budget would you set for government spending up to 2010-11?**

There has been steady growth in public spending in recent years, as the Government has delivered significant increases in resources for key areas such as health and education. By 2007-08, public spending is set to rise to over £580 billion, equivalent to around 43 per cent of GDP.

Like any organisation, the Government must operate within a fixed budget, balancing competing demands to fund the most important priorities. Before each spending review, the Government sets an overall budget for the next three year period, depending on the needs of the country. The Government's fiscal rules mean that these spending plans must be funded by appropriate levels of taxation, to maintain economic stability.

If government spending was to grow in line with the overall economy, it would rise by around 8 per cent in real terms between 2008 and 2011. But you may decide it is better to grow spending at a slower rate, to build up surpluses for leaner years, pay back debt or reduce tax rates for individuals and businesses. Alternatively, given the challenges facing the UK and its public services in the decade ahead, you may choose to raise public spending more rapidly, which is likely to require increases in tax rates.

**Set your budget**

2007-2008 total budget (£ billion)	Percentage change over 3 years (allowing for inflation)	2010-2011 total budget (£ billion)
583	No change ▾	632

**Proceed to spending review**

Source: <http://www.oecd.org/dataoecd/24/51/39894468.pdf>

**2.3 The Canadian Minister for Finance invited citizens' input on-line:**

**Invitation by the Honourable Jim Flaherty, Minister of Finance, to Pre-Budget Web Consultations**

**February 7, 2007**

As Minister of Finance, I welcome advice from Canadians on our country's economic and [fiscal policies](#). This is particularly important as we prepare this budget and future budgets. Budgets must reflect the priorities of Canadian families and hard-working taxpayers.

Last year nearly 6,000 Canadians participated in the online consultation process. People provided a wide range of responses touching on everything from tax reductions to infrastructure [investments](#). We are again looking for your ideas and insights as we prepare Budget 2007.

We also invited Canadians to participate in the development of our long-term economic plan called Advantage Canada. Advantage Canada sets out a bold and exciting course for a strong, united and outward-looking Canada. I encourage you to take a close look at this plan and other relevant information elsewhere on this site.

In closing, let me say Canada's New Government seeks to deliver a budget that is forward-looking and delivers results that can make a positive difference in your life and that of your family. I am confident your ideas and advice will help us build a stronger, safer and better Canada.

Thank you.

Source: <http://www.oecd.org/dataoecd/24/51/39894468.pdf>

**2.4 'Next Ten' is an example of a non-governmental (educational website) approach:**

**Building Your General Fund Budget for 2011-12**

The Challenge presents you with policy options that allow you to build your own state budget for 2011-12.

This is a simplified version of the state's **General Fund** budget. It has 7 spending categories and 4 revenue categories (shown in the 1st column).

The 2nd column shows the 2006-07 budget that has been adopted by state lawmakers.

The 3rd column shows what spending would look like 5 years from now if no policy changes are made.

The last column shows what the 2011-12 state budget would look like with your choices.

You can see a summary of the budget you are building at any time by clicking on "Summary/Details" in the far left menu.

California General Fund Budget (\$ in billions)		Year 5 budget projections (2011-12)		
Spending categories	2006-07 Adopted budget	Status quo	Your choices	
K12 Education	38.1	46.2	?	
Higher Education	10.6	13.8	?	
Medi-Cal & Healthy Families	14.0	19.0	?	
Other Health & Human Services	15.7	20.2	?	
Criminal Justice	10.5	13.0	?	
Other Spending	9.1	10.6	?	
Debt Service	4.1	6.9	?	
<b>Revenue categories</b>				
Income Tax	52.0	71.2	?	
Corporate Tax	10.3	14.0	?	
Sales Tax	27.8	37.1	?	
Other Revenue	4.4	5.5	?	
<b>Spending</b>	<b>102.1</b>	<b>129.7</b>	<b>?</b>	
<b>Revenue</b>	<b>94.5</b>	<b>127.8</b>	<b>?</b>	
<b>Deficit/Surplus</b>	<b>-7.6</b>	<b>-1.9</b>	<b>?</b>	

Where Does the Budget Data Come From?

◀ Back Next ▶

Source: <http://www.oecd.org/dataoecd/24/51/39894468.pdf>

<sup>i</sup> The Republic of Ireland is excluded from the analysis for reasons that are explained in Section 2. In summary, the role of the Dail in budget scrutiny is more limited than in the devolved administrations. Per: International Monetary Fund, *Who Controls the Budget: The Legislature or the Executive?* (2005)

<sup>ii</sup> Adapted from Lewis, *The Budget Process and Financial Scrutiny in UK Administrations*, 2007

iii In France, for example, the National Assembly implemented a number of changes in 2001; one effect was to enlarge the legal powers of parliamentarians to make expenditure amendments.

iv Inter-Parliamentary Union, *Parliament, the Budget and Gender*, 2004

v Wehner, J, *Back from the Sidelines? Redefining the Contribution of Legislatures*, World Bank 2004

vi World Bank Institute, *Parliament, the Budget and Gender*, 2004

vii Hague and Harrop, *Comparative Government and Politics*, 2001 as cited in Public Finance Research Unit, *Budget Scrutiny Project*, Northern Ireland Assembly, July 2003

viii Krafchik and Wehner, *The Role of Parliament in the Budget Process*, Idasa, January 1999

ix The Irish Budget is usually announced the first week in December and the Select Committee on Finance and the Public Service normally considers the Finance Bill mid-February each year. Individual Select Committees (12) examine the revised estimates and Annual Output Statements for their respective departments.

x International Monetary Fund, *Who Controls the Budget: The Legislature or the Executive?* (2005)

xi I.e. in the absence of delays caused by Comprehensive Spending Reviews

xii Amended from *Budget Scrutiny Project*, Public Finance Research Unit, July 2003

xiii This was in addition to having received evidence from DFP on an ongoing basis since May 2007 Committee for Finance and Personnel Report, “*Report on the Executive’s Draft Budget 2008-11*” [http://www.niassembly.gov.uk/finance/2007mandate/reports/Report\\_12.07.08R.htm](http://www.niassembly.gov.uk/finance/2007mandate/reports/Report_12.07.08R.htm)

xiv Refer to Part 4 (Assembly Finance) of <http://www.opsi.gov.uk/acts1998/19980038.htm>

xv [http://assembly/aegis/AssemblyGuidance/Standing%20Orders/standing\\_orders\\_contents.htm](http://assembly/aegis/AssemblyGuidance/Standing%20Orders/standing_orders_contents.htm)

xvi Due to, for example changes in UK Government expenditure plans or other technical amendments

xvii *The Budget Process and Financial Scrutiny in the UK Administrations*, Members Research Paper, National Assembly of Wales, June 2007

xviii <http://new.wales.gov.uk/about/cabinet/cabinetstatements/2006/966845/?lang=en>

xix <http://www.assemblywales.org/06-040.pdf>

xx There are some exceptions to this: in some cases sums will be charged on the fund by legislation and paid automatically; when a payment is deemed authorised by budget resolution under sections 127/128, (no resolution has been adopted by the beginning of the financial year / in emergency situations) of when a sum has been paid into the WCF by mistake.

xxi *Part 5 of the Government of Wales Act: Finance*, Members Research Paper, September 2006

xxii *The Budget Process and Financial Scrutiny in the UK Administrations*, June 2007

xxiii [www.scotland.gov.uk/government/devolution/fiag-00.asp](http://www.scotland.gov.uk/government/devolution/fiag-00.asp)

xxiv [www.scottish.parliament.uk/s3/committees/finance/budget/budgetProcess.htm](http://www.scottish.parliament.uk/s3/committees/finance/budget/budgetProcess.htm)

xxv Although not in 2008-09, (although this is Spending Review year), due to Scottish Parliamentary elections.

xxvi For the Budget Process 2008-09, the delayed publication of the UK Spending Review meant that the Scottish Spending Review and Draft Budget was published on 14 November 2007.

xxvii Lewis, *The Budget Process and Financial Scrutiny in the UK Administrations*, June 2007

xxviii Per Rule 9.16,5 Standing Orders of the Scottish Parliament

xxix The last review was conducted in 2002.

xxx This is not a comprehensive list of the issues identified for consideration “*Review of the Budget Process – Consultation Paper*”, Finance Committee of the Scottish Parliament

xxxi This could perform a similar role to that of the Congressional Budget Office in the USA; this would include the provision of independent, technical advice on budgetary matters throughout the year.

xxxii Krafchik and Wehner, *The Role of Parliament in the Budget Process*, Idasa, January 1999

xxxiii Budget Scrutiny Project Team, *Budget Scrutiny Research Report I*, Northern Ireland Assembly, 2003

xxxiv The National Performance Framework is set out in a separate chapter from budgets, compared with the objectives and targets set for each portfolio in the previous document.

xxxv Per Professor Bebbington, an adviser to Scottish Finance Committee on the Budget Process

xxxvi Historically, amendments have been minor, however they were more considerable in the 2008-09 Budget round.

xxxvii GAE information was removed from the budget, and 43 specific grants rolled into the block grant.

xxxviii OECD, *OECD Best Practices for Budget Transparency*, May 2001

xxxix World Bank Institute, *Parliament, the Budget and Gender*, 2004

xl Per:  
Wehner, J, *Back from the Sidelines? Redefining the Contribution of Legislatures*, World Bank 2004