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The Scottish Parliament Finance Committee's Review of the Budget Process: Points of Interest for Northern Ireland

Research Paper prepared for the Committee for Finance & Personnel

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In November 2007, the Scottish Parliament agreed that the budget process and the resources available for financial scrutiny should be reviewed. This paper describes the current budget process in Scotland, outlines in detail the issues to be considered by the Scottish Parliament Finance Committee in its review, and summarises the key points raised to date in written submissions and oral evidence sessions. Finally, it draws this body of evidence together into a summary of key points of relevant interest to the Northern Ireland Assembly Committee for Finance and Personnel to help inform its own review of the budget process in Northern Ireland.

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The Scottish Parliament Finance Committee's Review of the Budget Process: Points of Interest for Northern Ireland

Summary

In November 2007, the Scottish Parliament agreed that the budget process and the resources available for financial scrutiny should be reviewed. The review is being led by the Finance Committee and will examine:

- the principles underpinning the way each phase of the budget process is managed;
- the timetable for scrutiny and the opportunities for evidence to be taken;
- the relationships between subject committee scrutiny and the Finance Committee's role, including the means by which alternative spending proposals can be considered; and
- the resources available to support financial scrutiny.

This paper describes the current budget process in Scotland, outlines in detail the issues to be considered by the Scottish Parliament Finance Committee in its review, and summarises the key points raised to date in written submissions and oral evidence sessions. Finally, it draws this body of evidence together into a summary of key points of relevant interest to the Northern Ireland Assembly Committee for Finance and Personnel to help inform its own review of the budget process in Northern Ireland.

The key lessons that appear to be emerging from the Scottish Parliament's Review are as follows:

- 1) There is a clear need to influence the process at an early stage, as there is less scope for revision at the later stages of the process.
- 2) Subject Committees should have greater involvement in the process.
- 3) The entire process, including the linkage between spending and outcomes and the reconciliation of different sets of published figures, requires greater transparency and clarity.
- 4) More resources, including training and expert advice, are needed to support Members and Committees throughout the process.

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Introduction

In November 2007, the Scottish Parliament agreed that the budget process and the resources available for financial scrutiny should be reviewed¹. The review is being led by the Finance Committee and will examine²:

- the principles underpinning the way each phase of the budget process is managed;
- the timetable for scrutiny and the opportunities for evidence to be taken;
- the relationships between subject committee scrutiny and the Finance Committee's role, including the means by which alternative spending proposals can be considered; and
- the resources available to support financial scrutiny.

Current Budget Process

The current budget process is divided into three distinct stages, as recommended by the Financial Issues Advisory Group (FIAG) and confirmed by written agreements between the Finance Committee and the Executive. In short, the stages of the process are³:

- an examination of the Scottish Government's future spending plans and priorities (Stage 1);
- detailed scrutiny of the Scottish Government's firm spending plans for the coming financial year (Stage 2); and
- the granting of formal Parliamentary authority for spending in the coming financial year (Stage 3).

Stage 1 only takes place in a Spending Review year unless there is a Scottish Parliamentary election, as in 2007. During Stage 1:

- The Scottish Government publishes its "Annual Evaluation Report" (AER). This looks at progress against targets and some provisional spending plans.
- The Parliament's subject committees make comments to the Finance Committee on the area for which they have responsibility (e.g. the Justice Committee scrutinises the Justice Department's spending plans).
- The Finance Committee then makes recommendations to the Government in its Stage 1 Report.
- The report is debated by the Parliament, usually in June.

¹ The last review was conducted in 2002.

² See discussion paper by Prof. David Bell, Adviser to the Finance Committee - <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/bpReviewBell.pdf>

³ See the Finance Committee's Consultation Paper, 27 March 2008 - <http://www.scottish.parliament.uk/s3/committees/finance/budget/documents/conPaper.pdf>

- The Scottish Government responds to the Finance Committee's report in detail; and
- Individual Ministers respond as appropriate to subject committee reports.
- FIAG originally intended that Stage 1 of the process would take place on an annual basis. However, following the revision of the Written Agreement in 2005, it was agreed that Stage 1 would only take place in Spending Review years.

This change was made to reflect the central importance of the Spending Review cycle in setting spending plans. Spending Reviews set plans for three forward years (e.g. Spending Review 2007 set plans for 2008-09, 2009-10 and 2010-11) with the final year usually being the first year of the next Spending Review period. The change was primarily driven by recommendations from the Finance Committee and the subject committees. They pointed out that holding Stage 1 in non-Spending Review years resulted in a large amount of duplication in their work as there was little change in the figures. However, it was also based on the assumption that Spending Reviews would occur on even-numbered years (and thus not clash with Scottish elections).

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 main phases of Stage 2 are:

- The Scottish Government publishes its Draft Budget which contains firm spending plans for the following financial year, usually by 20 September.
- Subject Committees again scrutinise the area of the budget relevant to their remit and report their findings to the Finance Committee.
- At this point, subject committees can suggest alternative spending proposals to the Finance Committee (although these cannot increase the overall spend proposed by the Government);
- The Finance Committee publishes a report which can contain proposals for an alternative budget, but cannot increase the total spend proposed by the Government.
- The Parliament debates a motion lodged by the Finance Committee on its report.

The timetabling difficulties involved in Budget Process 2008-09 had an impact on Stage 2. The delay in publication of the UK CSR until October meant that the *Scottish Budget: Spending Review 2007* document (which included the Draft Budget 2008-09) was not published until 14 November 2007.

The third stage of the process provides Parliamentary authority for spending in Scotland for the following financial year. The main points to note regarding Stage 3 are:

- The Scottish Government must introduce the Budget Bill by 20 January each year.
- While this is the third stage of the Budget Process, the Budget Bill also has three stages, in common with other Scottish Parliament legislation.

- As a result of the level of detailed scrutiny in Stages 1 and 2 of the budget process, the time allowed for passage of the Bill is shorter than for the passage of other bills.
- Only a member of the Scottish Government can propose amendments to the Budget Bill.
- Despite this, the Parliament can vote the Bill down in its entirety at Stage 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 (Scotland) Act 2000 allows for expenditure to continue at the same rate as the previous year for previously approved projects.

The suggested deadlines set out in FIAG's report have been followed in Standing Orders and in the Written Agreement. FIAG considered that this part of the process should be largely formal and that it was crucial, and a matter of good financial management, that the Budget Process allowed for the budget for the following financial year to be agreed some weeks before the year began (preferably by 14 February). This is regarded as essential to allow local authorities and grant-aided bodies (among others) to have enough time to finalise their own budgets. In addition, time is needed for the Budget Bill to receive Royal Assent after being passed by the Parliament.

Issues to be considered

The Finance Committee's consultation paper explains the process in detail, and identifies the key issues that the Committee will be considering as part of its review.⁴ The paper identified issues to be considered at each of the three stages of the budget process and also the key issues in relation to the resources available for financial scrutiny.

Stage 1 issues

FIAG considered Stage 1 to be crucial in engaging the people of Scotland with the Budget Process, through the evidence taken by subject committees. However, the UK Comprehensive Spending Review expected for 2006 was delayed until 2007. This had a knock-on effect on the Scottish Spending Review, meaning that there was an unavoidable clash between Stage 1 scrutiny of it and the Scottish Parliamentary elections in May 2007. The next Spending Review, and therefore Stage 1 of the Budget Process, is not expected to take place until at least 2009 - meaning a gap of at least five years since Stage 1 budget scrutiny last occurred in 2004.

The Committee asked the following questions in relation to Stage 1:

- What contribution does Stage 1 make to the scrutiny process?
- Should Stage 1 continue to take place in Spending Review years only?
- Should the Budget Process be linked to the UK Spending Review in this way?
- Is there a viable alternative to the current Stage 1 arrangements that would allow a strategic examination of future spending priorities?

⁴ Scottish Parliament Finance Committee 'Review of the Budget Process – Consultation Paper' - <http://www.scottish.parliament.uk/s3/committees/finance/budget/documents/conPaper.pdf>

- How do the current arrangements fit with the key principles of the Consultative Steering Group (CSG) and the Financial Issues Advisory Group (FIAG)?

Stage 2 issues

The Committee noted that, especially during a Spending Review year, time for Stage 2 is constrained on two sides – by the UK Government’s timetable for publishing its Spending Review, and by the need to pass the Budget Bill by the end of the financial year. This means that there is limited scope for flexibility in the timetable for Stage 2 of the process. It has also been assumed that a gap should be allowed between Stage 2 of the budget process and the introduction of the Budget Bill, allowing the Scottish Government time to reflect and respond to any recommendations made at Stage 2. The Committee therefore asked the following questions in relation to Stage 2:

- Working within the constraints, what is the best way to organise scrutiny of the Scottish Government’s Draft Budget?
- What is the best way to deal with any delays in future UK Spending Reviews?
- What should be the balance of responsibility between the subject committees and the Finance Committee?
- Is the time currently available for subject committee and Finance Committee scrutiny adequate?
- If not, the Committee would be interested to hear views on how much extra time should be set aside, and how that might be done, taking into account the constraints detailed above.
- Whether time should be set aside for more plenary debates alongside committee scrutiny?
- If so, what form should any extra debates take?
- At Stage 2, how should any plenary debates interact with committee scrutiny?
- For Budget Process 2008-09, the debate on the Finance Committee’s report was effectively incorporated into the Stage 1 debate on the Budget Bill. This was done by necessity as there was not enough time to fit an extra debate into the Parliamentary timetable between publication of the Finance Committee’s report and the deadlines set down in the Written Agreement and Standing Orders for the introduction of the Budget Bill. Should this practice of rationalising the two debates be continued in future years?

Both subject committees and the Finance Committee have the opportunity to put forward alternative spending proposals at Stage 2, although the Written Agreement says that these must be “zero-sum” (i.e. proposals to change the way spending is allocated, but remaining within the overall spend proposed by the Government by proposing corresponding reductions to off-set any proposed increases). There is no formal guidance on alternative spending proposals, although it is usually mentioned in the Finance Committee’s guidance to subject committees. Although this mechanism has been used rarely in the past, various issues were raised regarding alternative spending proposals during the 2008-09 Budget Process.

The Committee asked the following questions in relation to alternative spending proposals:

- Do the scrutiny process and the timetable allow for sufficient opportunity to consider any alternative spending proposals?
- Does the system provide an appropriate balance between a desire for budgetary stability and an opportunity to influence change? A
- Although alternative spending proposals have usually been mentioned in the Finance Committee's "Guidance to Subject Committees" and in the Written Agreement, there is no detailed, formal guidance on their format. As part of this review, should guidance be developed or should there be something more binding?
- In relation to making alternative spending proposals, the Committee would be interested in views on how the impact of any proposals can be adequately assessed by Committees and whether sufficient resources are available to support this?

Stage 3 issues

FIAG originally intended the third stage of the process to be a formality, and for the bulk of Parliamentary scrutiny to take place at the earlier stages. On this basis, Stage 3 is subject to a tight timetable. The Committee therefore asked the following questions in relation to Stage 3:

- Whether there is sufficient opportunity earlier in the process for Parliamentary influence on the budget, thereby allowing the assumption that Stage 3 should be a short formal process to continue?
- Do the processes strike the right balance between a desire for budgetary stability and allowing reflection and opportunity to influence change?
- If there is not sufficient opportunity in the earlier stages, what could be done to change this balance?

Advice and resources

The Finance Committee currently appoints a standing budget adviser (currently on a two year contract) to offer independent advice to the Committee on its consideration of the budget process. For Budget Process 2008-09, for the first time, all subject committees also appointed budget advisers for Stage 2 of the process on a 15-day contract (this had happened on an occasional basis in the past). The previous Session's Finance Committee considered the provision of expert advice in its Legacy Paper and recommended that the present Committee give thought to how resources for financial scrutiny should be enhanced.

Due to the time restrictions around the formal budget process, the previous Committee concluded that one way in which subject committees could enhance budget scrutiny would be to build an element of financial scrutiny into any inquiry work throughout the year. The Committee therefore sought views on the following points:

- How well does the current system of budget advisers for individual committees operate in practice?

- What would the resource implications be if subject committees were to “mainstream” financial scrutiny in their inquiry work throughout the year?
- Would there be merit in having a “Parliamentary Budget Office” which could perform a similar role to that of the Congressional Budget Office in the USA (albeit tailored to the needs of the Scottish Parliament) by providing independent, technical advice on budgetary matters not only during the budget process but throughout the year?

Consultation Responses

Up until the end of June 2008, 13 written submissions were received (see list at Annex A) and oral evidence had been given by 13 witnesses (see list at Annex B)⁵. The Committee agreed, on 23 September 2008, that it would consider a draft report at a future meeting.

Professor David Bell, the current budget adviser to the Finance Committee, also produced a discussion paper on the review which included the following key points:⁶

- Stage 1 has been largely unsuccessful. There is a strong case for replacing it with a continuous process which is not at the mercy of the timing of UK Spending Reviews and Scottish elections.
- This new process would include a plenary debate held once during a parliament at a time when the government can both be tested against its stated strategic objectives and when it is still possible to influence its spending priorities before the next election.
- This new continuous process would involve ongoing collection and appraisal of relevant financial information and its distribution to subject committees. This should also make the Stage 2 process more effective.
- Support to the process might be provided by the Scottish Parliament Information Centre (SPICe) and/or the budget advisers. The funding might not have to come entirely from the Parliament.
- The process would establish links with Audit Scotland and possibly the Scottish Futures Forum.
- The timing of Stages 2 and 3 cannot be substantially changed. If the scrutiny processes are to be made more effective, the subject committees will have to work more efficiently. They will be aided in doing so, if they are able to use the additional resources described above. There might be a case for embedding the guidance to subject committees within the written agreement between the Finance Committee and the Scottish Government, so that subject committees are clear about what is expected of them before the process starts.
- Mainstreaming financial scrutiny would also require subject committees to give such activity higher priority.
- The Finance Committee should continue to be the lead committee for purposes of budget scrutiny.
- The issue of making the budget process more popular with MSPs, the media and the community might usefully be addressed in the review.

⁵ Some of those who gave oral evidence also made written submissions.

⁶ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/bpReviewBell.pdf>

- More assistance should be available to those constructing alternative spending proposals, but until more is known about their popularity, it seems unnecessary to change the budget timetable.
- There should be no need to change the timing of Stage 3.
- A balance always has to be struck between fiscal discipline and the inclusiveness of the budget. In present circumstances, at Stage 2, increases in spending in one area cannot be made without reductions elsewhere. This constraint may make participants in the process feel powerless. For example, it would be difficult to understand this constraint from the perspective of an external body interested in a cross-cutting issue.
- This argument suggests that there is a real need for a replacement for Stage 1, where issues are treated in a more strategic fashion.

The submission from the **Centre for Public Policy for Regions** included the following key points:⁷

- The Finance Committee's role of holding the Scottish Government to account is essential in the absence of a strong, independent scrutiny function within the administration.
- Challenging budget allocations over the spending review period increases the need to monitor the Government's progress in delivering its economic strategy.
- The local government concordat increases the need to hold the Government to account given the increased role local government now has in delivering the nationally-set economic targets.
- There is a growing need for the Finance Committee to look closely at what resources it can call upon to aid its effective scrutiny of the £30 billion spent on Scotland's public services.
- External scrutiny would be enhanced if the Finance Committee were to seek changes to a small number of operational issues that currently lead to inappropriate confusion and disagreement amongst commentators (e.g. more clarity required on treatment of depreciation in relation to DEL, reconciliation needed between spending plans and actual budgets, and more clarity required on underlying real terms trend in spending).

Professor Arthur Midwinter (former adviser 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 also made the following recommendations:⁸

- Stage 1 of the process should occur every second year, focusing on the Annual Evaluation Report (AER) to allow performance reporting against past targets.
- Strategic priorities should be based on major crosscutting issues.
- The document should show how Executive's objectives have determined budgetary allocations.
- There should be a direct link between budgets and outcomes.⁹

⁷ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/JoArmstrongCPPR.pdf>

⁸ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/ArthurMidwinter.pdf>

⁹ 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.

- The current set of budget priorities is not fit for purpose. It does not provide a meaningful framework for resource allocation, and does not provide the analysis of spending allocations necessary for rigorous scrutiny by the Committee. A more systematic approach to setting strategic budget priorities is needed.
- There is considerable scope for improving both the rigour and the transparency of the budget document.

The **Scottish Women’s Budget Group** (SWBG) argue for the retention and enhancement of Stage 1 with a view to establishing more effective scrutiny. They believe that this enhanced Stage 1 would provide the opportunity for MSPs and the public to put their views to subject committees at an early stage of the process.

In considering the role of the Finance Committee in an enhanced budget scrutiny process and the Committee’s relationship with other Committees, SWBG recommends the following:

- The Finance Committee issues formal guidance at the outset of an enhanced Stage 1 to all subject Committees.
- In developing this guidance the Finance Committee should collaborate with the Equal Opportunities Committee, given their cross cutting strategic focus on equality. This would ensure sufficient consideration is given to equal opportunities which is essential for the purpose of enhancing the scrutiny process in line with an overall mainstreaming strategy.

SWBG further believe the practice of appointing budget advisers across all Committees should continue and that there would be merit in having a dedicated Parliamentary Budget Office. Such a formal resource could draw upon the current skill base and specialist expertise evident within SPICe.

The key consideration for SWBG is how the current review of the budget process will address the lack of progress to date in promoting a more gender aware approach to the national budget. Thus, SWBG deem a significant outcome of the Scottish Parliament’s budget review process to be the implementation of measures designed to ensure that adequate and effective consideration is given to equality objectives throughout the budget process.¹⁰

Professor Irvine Lapsley argues for caution in relation to removing Stage 1 from the process:¹¹

- The ethos of the Scottish Parliament is one of *inclusion*. The deletion of Stage 1 may run counter to this idea.
- The Subject Committees within the Scottish Parliament contain specialist expertise which should enhance the quality of budgetary scrutiny.
- There are issues of available time, capacity to interrogate, and prioritisation of Subject Committee business, which may undermine the effectiveness of Stage 1.
- The deletion of Stage 1 of the current budgetary process may lead to a narrowly focussed dialogue between the Finance Committee and Government. This would

¹⁰ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/SWBG.pdf>

¹¹ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/ProfessorIrvineLapsley.pdf>

not enhance democratic accountability and would run counter to the idea of an open Scottish Parliament.

On the establishment of a separate Budget Office within the Scottish Parliament, Professor Lapsley points to potential recruitment and retention problems for the appropriate level of expertise, and also the duplication of existing expertise within the Scottish Government.

Professor Iain McLean addresses a number of the Finance Committee's questions as follows:¹²

- *Should Stage 1 continue to take place in Spending Review years only? Should the Budget Process be linked to the UK Spending Review in this way?* Under 'Barnett', the Budget Process is inextricably linked to the UK Spending Review. Therefore there is no realistic alternative to continuing Stage 1 in Spending Review years only. The Scottish Parliament should seek an undertaking from HMT that it will not in future unilaterally alter the time-span of Spending Reviews.
- *Is there a viable alternative to the current Stage 1 arrangements that would allow a strategic examination of future spending priorities?* Very difficult under 'Barnett', because Scottish DEL is almost entirely a function of current *English* spending priorities. The Scottish Parliament has nobody whom it can ask about future English spending priorities.
- *How do the current arrangements [at each stage] fit with the key principles of the CSG and FIAG?* Badly, for the reasons given above.
- *What is the best way to deal with any delays in future UK Spending Reviews?* To ensure that they do not occur, by reminding UK Ministers and HMT that the entire budgeting process of the three DAs depends on Spending Reviews being punctual. A (poor) second-best would be to detach the publication of the Operations Manual from the Spending Review timetable. However, this change would not in itself alter the process of determining Scotland's DEL.
- *Does the system provide an appropriate balance between a desire for budgetary stability and an opportunity to influence change?* No, because stakeholders have no chance to propose alternative tax-and-spend packages.
- *Would there be merit in having a "Parliamentary Budget Office" which could perform a similar role to that of the Congressional Budget Office in the USA (albeit tailored to the needs of the Scottish Parliament) by providing independent, technical advice on budgetary matters not only during the budget process but throughout the year?* Yes.

The **CIPFA** submission included the following recommendations:¹³

- With regard to the resources available to support the Parliament in its scrutiny work:
 - CIPFA points out that many overseas Parliaments either use, or wish to use, independent experts during the budget process in order to avoid over-reliance on Government data and allow more independent scrutiny.

¹²<http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/ProfessorIainMcLean.pdf>

¹³<http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/CIPFA.pdf>

- The conclusions in the paper “Recreating Financial Scrutiny”¹⁴ was that the problem is not the Houses’ (Commons/Lords) powers in financial matters but the ability and willingness of the Houses and members to scrutinise such matters in the degree of detail required to hold the Government to account. One way of increasing members’ capacity for financial scrutiny would be to make more training available for them.
- Parliament should not design a budget system and budget timeline around the CSR timing difficulties of the previous year but instead create a sound timetable and be prepared to adapt it by exception.
- CIPFA point out that the OECD recommends that there should be at least 3 months for Parliamentary scrutiny.¹⁵
- Budget documents should be presented in a way that enables Parliament to scrutinise the allocation of resources against Government objectives.
- Consideration should be given to the role of the Parliament and the committees in scrutinising progress against efficiency targets and the targets themselves should also be scrutinised.

Other recommendations were made by CIPFA in relation to budget documents (including the publication of a ‘Pre-Election Report’), scrutiny of the implementation of legislation, local authority expenditure, and PFI contracts.

The **Hansard Society** based their submission on their 2006 report ‘*The Fiscal Maze: Parliament, Government and Public Money*’, which looked at the system of financial scrutiny in Westminster. Recommendations in this report included the following:¹⁶

- Departmental estimates and spending plans should also be sent to select committees at the earliest possible date so that committees have the opportunity to examine them thoroughly before they are voted on in Parliament.
- There should be more opportunities for debate of these committee inquiries in the chamber. Select committee work on estimates and spending plans should link to other processes, such as debates and other inquiries.
- Spending reviews provide the ideal opportunity for Parliament to scrutinise government spending plans at both the macro and micro level and Parliament should become fully involved in the process leading up to these reviews.
- Parliament should be able to vote on transfers within departmental budgets.
- In the period between the Pre-Budget Report and the main Budget, Parliament should take expert and public evidence on the government’s plans. It should make a case for the priorities it wishes government to consider, and ensure the government provides full information and explanation for its proposals.
- Financial legislation has not benefited from the procedural reforms which now give Parliament an opportunity to comment on and influence many draft bills. The entire Finance Bill should be subject to pre-legislative scrutiny by a parliamentary committee.

¹⁴ House of Commons Liaison Committee Parliament and Government Finance Second Report of Session 2007-2008.

¹⁵ OECD Best Practices For Budget Transparency.

¹⁶ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/Hansard.pdf>

- The work of the Public Accounts Committee should be followed up more effectively through the introduction of a regular trigger for review of recommendations to assess their progress.
- Departmental annual reports should also include a specific section on progress made in implementing recommendations and the outcomes of the changes made.
- Most Parliamentarians are not financial experts and thus need the best possible support if they are to improve financial scrutiny. At Westminster, the work of the Commons Scrutiny Unit, introduced in 2002, provides valuable support to select committees. The Hansard Society recommended that this work should be built upon, either through an expansion of its role or through its evolution into a Parliamentary Finance Office to provide comprehensive support on all financial matters to individual parliamentarians and select committees.
- Parliament should provide a document which sets out the operation of financial scrutiny which is publicly available.
- The views and experiences of members of the public and interested groups should be sought and should feed into the parliamentary process.

The former Chair of FIAG, **Peter Collings**, provided some brief commentary on the three stages of the budget process. He pointed out that it was hard to see how a Stage 1 as envisaged by FIAG could work effectively in a year when there was no Spending Review and changes to expenditure plans were small.

On Stage 2, he noted that there were fewer suggestions from Committees regarding expenditure priorities than expected. He also said that the issue of alternative spending proposals was debated a great deal in FIAG but he thought it fair to say that nobody expected them to feature highly. The zero sum arrangement was intended to avoid amendments which allocated extra resources without saying where they should come from.

On Stage 3, he simply noted that it was seen as being about the Government putting its proposals to the Parliament for approval with active participation by Committees having been done earlier.¹⁷

The **Education, Lifelong Learning and Culture Committee** noted that there were some long standing frustrations with regard to subject committee scrutiny of the Scottish Government's budget. These were related to wider issues of transparency and accountability. It was the Committee's view that it had been traditionally difficult to accurately track expenditure in a given year, partly at least as a result of the way in which the information is presented. The Committee considered that the Finance Committee should give thought to how the overall process could be improved to make it more transparent, and to make tracking expenditure more straightforward.

The Committee felt that the Scottish Government should be encouraged to respond positively to subject committees' suggestions for improvements to the way in which information is provided to support the scrutiny process. The Committee also felt that the

¹⁷ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/FIAG.pdf>

budget process for 2008-09 had provided some additional difficulties, particularly with regard to tracking education spending by local authorities.¹⁸

The **Health and Sport Committee** expressed the view that, given the time, advice and information available under the existing process, subject committees are limited in their ability to undertake anything other than the most superficial scrutiny of the budget. Other key points were as follows:¹⁹

- The Committee felt that Stage 1 consideration is a crucial part of the budget process, offering subject committees the best opportunity to engage with external stakeholders and to influence spending priorities.
- In order to help overcome the current time constraint, the Committee suggests that consideration be given to reducing the amount of parliamentary time spent in plenary session during the Stage 2 period to allow an increase in the time available for committee scrutiny.
- The Committee is of the view that the provision of expert advice to subject committees at an earlier stage in the process would greatly assist their ability to undertake scrutiny.
- The Committee suggests that consideration be given to establishing arrangements allowing subject committees to have access throughout the parliamentary year to standing advisers on financial matters (either on a shared basis or individually).
- The Committee believes that it is essential that a mechanism is established to allow the relevant subject committees to scrutinise single outcome agreements in order to assess departments' and local authorities' performance. The Committee also considers that it is important the single outcome agreements are available to the Parliament ahead of the debate on the Budget Bill.
- The Committee has found it difficult to scrutinise the health board budget on the basis that individual board allocations are not made until after Stage 2 of the budget process has been completed.
- The Committee suggests that consideration be given to greater standardisation and more accessible presentation of health boards' financial information. In particular, the Committee would like to see health boards present their annual reports in a standardised form and suggests that the Finance Committee explore this suggestion with Audit Scotland.

The **Rural Affairs and Environment Committee** did not have a unanimous view regarding the budget process but agreed that the Convener should report back on the content of its discussions. The main points were as follows:²⁰

- On the provision of level 3 information to committees, Members of the Committee welcomed the Cabinet Secretary's commitment that information at Level 3 would be made available by the relevant directorate. One view expressed was that, for

¹⁸<http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/EducationLifelongLearningandCultureCommittee.pdf>

¹⁹<http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/HealthandSportCommittee.pdf>

²⁰<http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/RuralAffairsandEnvironmentCommittee.pdf>

- the sake of transparency, Level 3 information should be provided automatically to committees and not just on request.
- Some members highlighted that only Scottish Ministers are able to lodge amendments at Stage 3 of the Budget Bill and it was suggested that the scope for opening this process up to all members be explored. Other members noted that altering the budget process in the light of one particular set of election outcomes would not be appropriate and that any changes to the budget process should be sufficiently robust to last several parliamentary sessions.
 - A view was expressed that the Finance Committee should explore whether there needs to be an independent source of expert advice to committees that provides support to committees in conducting their budget scrutiny and developing alternative spending proposals. This could be either in the form of an office of the budget or greater resources within the Scottish Parliament Information Centre
 - Several members indicated that there needs to be a longer timescale for committees to scrutinise the budget and noted that this year's process was particularly unsatisfactory, although noting that the Scottish Government was constrained, in part, by the timing of the UK Spending Review announcement.

The main point raised by the **Scottish Parliament Corporate Body** was in relation to the potential costs associated with the creation of a Parliamentary Budget Office.²¹

A submission was also made by the **House of Commons Scrutiny Unit**. The Unit undertakes analysis and provides briefing for each departmental committee on Estimates, Supplementary Estimates, Departmental Annual Reports and Autumn Performance Reports. It has 19 staff, including seven staff engaged in financial, economic and statistical support for committees. Most of these staff are qualified accountants.

Their submission discusses the extent of financial scrutiny of budgets and expenditure plans in the House of Commons and makes no observations on the procedures or powers of the Scottish parliament or its committees. The submission was offered simply as an aid to comparison and as a commentary on relevant developments underway in Westminster.²²

While much of the oral evidence re-iterated many of the points made in the written submissions, it is worth adding an important recommendation made by **John Swinney**, the Cabinet Secretary for Finance and Sustainable Growth.²³ He referred to a request that he had made in a letter to the Convener of the Finance Committee to approve a proposal for a single Scottish Government budget figure in Parliamentary terms for net expenditure to replace the need to approve individual Departmental budget figures:

“At the moment, under its agreement with the Finance Committee, the Government is obliged to balance every budget item by portfolio. That is fine; the Government did so this year and will, under the agreement with the committee, continue to do so whenever required. However, such an

²¹ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/SPCB.pdf>

²² <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/HouseofCommonsScrutinyUnit.pdf>

²³ Finance Committee meeting, 24 June 2008 -

<http://www.scottish.parliament.uk/s3/committees/finance/or-08/fi08-1801.htm>

approach constrains the Government's ability to minimise underspends, because the Government has to retain sufficient financial cushion, portfolio by portfolio, to guarantee that every number comes in under the budget total. We have to do that for every number under the eight budget headings, so we have to have eight cushions in place.

I have therefore proposed to the convener of the Finance Committee that the effectiveness of public sector spend would be improved if the Government had to deliver against only one budget number, and if we had flexibility between individual portfolios in how we arrived at that number. The advantage of that would be that the Government would be able to eliminate unnecessary financial planning—the cushioning, as I characterise it—thereby minimising underspends...

...The proposal is that we create a mechanism to improve financial efficiency and effectiveness.”

This issue has not yet been addressed by the Finance Committee, and will presumably be looked at within the context of the review.

Key points of interest for Northern Ireland

There are a number of common themes emerging from the responses received to date. Whilst some of these relate to the detail in the process, the main general points emerging appear to be as follows:

- The Stage 1 process should be retained, but not in its current form. The Current Budget Adviser argues for the need for a more strategic approach at this stage, particularly in relation to cross-cutting issues.
- While some of the respondents felt that more time was needed for effective scrutiny, the expert witnesses (including the current Budget Adviser) seem to think that there is little scope to change the timing of Stages 2 and 3. The main focus is therefore on extending the time spent on Stage 1, by making this part of the process continuous and/or through mainstreaming financial scrutiny into the work of the Subject Committees.
- The ability to propose alternative spending proposals at Stage 2 is limited in practice by the zero sum arrangement, which reinforces the view of the importance of Stage 1.
- The entire process, including the linkage between spending and outcomes and the reconciliation of different sets of published figures, requires greater transparency and clarity.
- More resources are needed to support Members in their scrutiny at Stages 1 and 2, including relevant training and (as suggested by some respondents) the establishment of a Parliamentary Budgetary Office and/or greater input from the Scottish Parliament Information Centre.

The terms of reference for the review undertaken by the Assembly's Committee for Finance and Personnel were as follows:²⁴

- To contribute to the ongoing Review of the budget process being conducted by the Department of Finance & Personnel (DFP) by –
 - examining the budget process in other legislatures and identifying lessons for Northern Ireland;
 - co-ordinating the views of the Assembly's statutory committees on the 2007 Budget process; and
 - reporting these to DFP by end October 2008.
- To consider and respond to the findings from DFP's Review.
- To review and make recommendations on the resources available for assisting Members and Committees in undertaking budget and financial scrutiny (following the outcome of the DFP Review)
- To review and make recommendations on the processes for in-year monitoring of Departmental expenditure by the Assembly and its Statutory Committees.

In relation to 'examining the budget process in other legislatures', the Scottish Parliament Finance Committee's Review is particularly informative. The key lessons that appear to be emerging are as follows:

- 1) There is a clear need to influence the process at an early stage, as there is less scope for revision at the later stages of the process.
- 2) Subject Committees should have greater involvement in the process.
- 3) The entire process, including the linkage between spending and outcomes and the reconciliation of different sets of published figures, requires greater transparency and clarity.
- 4) More resources, including training and expert advice, are needed to support Members and Committees throughout the process.

²⁴ These were agreed at the Committee's meeting of 2 July 2008.

Annex A: List of written submissions on Review of Budget Process up to end June 2008²⁵

1.	Arthur Midwinter
2.	House of Commons Scrutiny Unit
3.	CIPFA in Scotland
4.	Education, Lifelong Learning and Culture Committee
5.	Health and Sport Committee
6.	Rural Affairs and Environment Committee
7.	Centre for Public Policy for Regions
8.	Scottish Parliamentary Corporate Body
9.	Scottish Women's Budget Group
10.	The Hansard Society
11.	Peter Collings, Former Chair of FIAG
12.	Professor Iain McLean
13.	Professor Irvine Lapsley

²⁵ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/fc-budgetreview-evid.htm>

Annex B: List of witnesses who gave oral evidence on Review of Budget Process, 10-24 June 2008²⁶

- Dr Peter Collings, former Chair of the Financial Issues Advisory Group
- Professor David Heald, former member of the Financial Issues Advisory Group
- Alf Young, former member of the Financial Issues Advisory Group
- Des McNulty MSP, former Convener of the Finance Committee
- Alasdair Morgan MSP, former Deputy Convener of the Finance Committee
- Eddie Frizzell, Budget Adviser to the Justice Committee, Budget Process 2008-09
- Jan Polley, Budget Adviser to the Rural Affairs and Environment Committee, Budget Process 2008-09
- Professor David Bell, Budget Adviser to the Finance Committee
- Jo Armstrong, Centre for Public Policy for Regions
- Professor Irvine Lapsley, Institute of Public Sector Accounting Research University of Edinburgh
- Professor Iain McLean, Professor of Politics, Oxford University
- Alex Brazier, Director, Parliament and Government Programme, Hansard Society
- John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth

²⁶ <http://www.scottish.parliament.uk/s3/committees/finance/inquiries/budgetReview/oralEvidence.htm>