

Finance Committee Report

SP Paper 315

FI/S3/09/R5

5th Report, 2009 (Session 3)

Report on the Review
of the Budget Process

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Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Finance Committee's webpages, at: <http://www.scottish.parliament.uk/s3/committees/finance/index.htm>

16th Meeting, 2008 (Session 3), Tuesday 10 June 2008

WRITTEN EVIDENCE

[Peter Collings, Former Chair of FIAG](#)
[Professor David Bell - Discussion Paper](#)

ORAL EVIDENCE

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;
Prof David Bell, Budget Adviser to the Finance Committee.

17th Meeting, 2008 (Session 3), Tuesday 17 June 2008

WRITTEN EVIDENCE

[Centre for Public Policy for Regions](#)
[Professor Irvine Lapsley](#)
[Professor Iain McLean](#)
[The Hansard Society](#)

ORAL EVIDENCE

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;
Professor Colin Talbot, Professor of Public Policy and Management, University of Manchester Business School.

18th Meeting, 2009 (Session 3), 24 June 2009

ORAL EVIDENCE

John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth;
John Williams, Head of Finance Co-ordination, Scottish Government.

ADDITIONAL WRITTEN MATERIAL

[Arthur Midwinter](#)

[CIPFA in Scotland](#)

[Education, Lifelong Learning and Culture Committee](#)

[Health and Sport Committee](#)

[House of Commons Scrutiny Unit](#)

[House of Commons Scrutiny Unit \(Supplementary\)](#)

[Rural Affairs and Environment Committee](#)

[Scottish Parliament Information Centre briefing: Comparative Budget Processes](#)

[Scottish Parliament Information Centre paper: Summary of submissions from budget offices](#)

[Scottish Parliamentary Corporate Body](#)

[Scottish Parliamentary Corporate Body \(Supplementary\)](#)

[Scottish Women's Budget Group](#)

[Virginia State Legislature](#)

Remit and membership

Remit:

1. The remit of the Finance Committee is to consider and report on-

(a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;

(b) any report made by a committee setting out proposals concerning public expenditure;

(c) Budget Bills; and

(d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, "public expenditure" means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

(Standing Orders of the Scottish Parliament, Rule 6.6)

Membership:

Jackie Baillie (Deputy Convener)
Derek Brownlee
Linda Fabiani
Joe FitzPatrick
James Kelly
Jeremy Purvis
Andrew Welsh (Convener)
David Whitton

Committee Clerking Team:

Clerk to the Committee

James Johnston

Senior Assistant Clerk

Mark Brough

Assistant Clerk

Allan Campbell

Committee Assistant

Jennifer Bell

Report on the Review of the Budget Process

The Committee reports to the Parliament as follows—

INTRODUCTION

1. The Scottish Parliament's process for budget scrutiny was devised by the Financial Issues Advisory Group (FIAG) which was a group of experts established by the Scottish Office in 1998 to advise the Consultative Steering Group (CSG) on financial matters. The process recommended by FIAG has operated in the Parliament since 1999, with one amendment being made to it in 2005.

2. In November 2007, prior to the publication of the Scottish Spending Review and Draft Budget 2008-09, the Parliament agreed the following resolution which recommended that the budget process should be reviewed—

“That the Parliament recognises the critical importance of the forthcoming three-year spending review to meeting the hopes and aspirations of the people of Scotland; welcomes the detailed scrutiny of the SNP Government's spending plans by parliamentary committees as a central part of the budget process; believes that an effective budget scrutiny process is critical in ensuring that public services are delivered in a way which provides optimal value for money; believes that the process should be sufficiently robust to cope with majority and minority government; believes

that there is scope to review the operation of the current procedures as laid down in the Standing Orders and the agreement between the Finance Committee and the Scottish Government; believes that the appropriate vehicle for such a review would be the Standards, Procedures and Public Appointments Committee, in consultation with the other committees of the Parliament, particularly the Finance Committee, and requests that the Standards, Procedures and Public Appointments Committee undertakes a review of the budget process for future years.”¹

3. Although the resolution called on the Standards, Procedures and Public Appointments Committee (SPPA Committee) to undertake such a review, it was agreed with the SPPA Committee that the Finance Committee should undertake a review in the first instance. Although some aspects of the process (such as the rule setting out that committees should be allowed time to undertake financial scrutiny and the rules governing the passage of the Budget Bill) are contained in Standing Orders, the majority of the detail of the process is contained in a Written Agreement between the Scottish Government and the Finance Committee (the “Written Agreement”). It was agreed that, once the Finance Committee had reported on its review of the process, the SPPA Committee would then undertake its own review, taking account of the report from the Finance Committee. It would, however, be at liberty to come to its own conclusions.

4. The Finance Committee published a consultation paper to launch its inquiry, seeking views on the effectiveness or otherwise of the current process and how it could be improved, focussing on the current individual stages of the process. The resolution passed by the Parliament suggested that any revised process should be robust enough to be able to cope with both a majority or minority administration. The Committee also took into account that any revised process should be able to cope with any additional fiscal powers that may be devolved to Scotland.

5. The Committee took evidence on 10 June 2008 from former members of FIAG, a former convener and deputy convener of the Finance Committee and current budget advisers to the Finance Committee and subject committees. On 17 June 2008, it took evidence from experts in the field of budget scrutiny and, on 24 June 2008, it took evidence from the Cabinet Secretary for Finance and Sustainable Growth. Oral and written evidence, and additional material, are published on the web as [Annexe C](#) to this report.

6. On the basis of this evidence, the Committee has identified a number of areas where improvements need to be made to the current process and has recommended some practical solutions to problems identified with the process to ensure more robust financial scrutiny. This report focuses on the changes which the Committee believes require to be made.

BACKGROUND

Structure of the Scottish Budget

7. The Scottish Budget funds the expenditure of the Scottish Government and its associated departments and agencies, health boards, local authorities, non-

departmental public bodies, nationalised industries, the Scottish Parliament and Audit Scotland.

8. The majority of the Scottish Budget is comprised of the 'block' of money assigned by the UK Government (in this respect, Scotland is treated in the same way as a UK government department). This is known as the Departmental Expenditure Limit (DEL) and changes to Scotland's allocated DEL budgets are determined through the Barnett Formula. The DEL accounts for approximately 80% of Scotland's overall budget.

9. Another part of the Scottish Budget is comprised of Annually Managed Expenditure (AME). This is spending included in the budget, funded by the UK Government but not falling within DEL. Expenditure in AME is generally less predictable, more demand-led and so less controllable than expenditure in DEL. It therefore needs to be "annually managed" rather than determined on a longer-term basis. The main AME items in the Scottish budget are student loans, housing support grant and NHS and teachers' pensions. The Barnett Formula does not apply to spending in AME.

10. A third element making up the Scottish Budget is locally financed expenditure (non-domestic rates – more commonly called the business rate). This forms part of the Scottish Government's support to local authorities. All commercial properties pay rates based on rateable values of properties multiplied by a rate poundage. Prior to 1989 local authorities had responsibility for setting business rates in their own area. However, business rates are now set nationally. Local authorities collect the rates but the Scottish Government determines how the income from the 'national pool' of non-domestic rates is distributed among local authorities.

Current budget process

11. As part of its deliberations, FIAG examined the UK system of budget scrutiny and concluded that—

"The Westminster system has not succeeded in promoting a constructive discussion of budgetary and expenditure priorities or a sensible dialogue between Executive and Parliament on these issues. As a result, the UK Parliament has no meaningful input and the approval of expenditure is made ex post facto. So, although the present system ensures that financial information is presented, it does not encourage the House and its Committees to make the best use of that information."²

12. The system designed by FIAG for Scotland was therefore intended to provide a much greater opportunity for the Parliament and its committees to play a meaningful role in the scrutiny and approval of the Scottish Government's spending plans. In developing its system, FIAG also sought to ensure that the key principles of the CSG informed every phase of its work. The key principles of the CSG, that became the founding principles of the Parliament, are—

- power should be shared between the people of Scotland, the Parliament and the Scottish Executive;
- the Parliament should be accountable to the people of Scotland;

- the Parliament should be accessible, and encourage participation with the people of Scotland; and
- the Parliament should recognise the need to promote equal opportunities for all.

13. In order to conform to these key principles, FIAG was of the view that it was crucial that the budget process for Scotland should be capable of—

- providing opportunities for the Parliament to comment on expenditure priorities and to influence the Executive's preparation of Budgets;
- providing the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process;
- providing sufficient time for the Parliament to consider and debate proposals fully;
- providing balance between the requirement for Parliamentary scrutiny and the needs of the Executive;
- providing some degree of certainty so that on-going activities can continue without prolonged uncertainty;
- providing an efficient mechanism to deliver motions to be debated by the Parliament;
- providing a meaningful role for subject committees and the Finance Committee;
- delivering timeous decisions on tax varying power and the Budget (as well as the interim spending approval and budget amendments);
- engaging all MSPs;
- facilitating the Executive's formulation of proposals; and
- providing for rights of amendment.

14. FIAG recommended that a three stage budget process be established. This was adopted by the Parliament through the Written Agreement between the Finance Committee and the then Scottish Executive. These stages are set out below.

Stage One

15. The first stage in the process is designed to allow the Parliament to consider the Scottish Government's future spending plans and priorities. FIAG originally intended that Stage One of the process would take place on an annual basis. However, in 2005 following the revision of the Written Agreement, it was agreed that Stage One would only take place in a year in which there was a UK Spending Review because major changes to the Scottish Budget were unlikely to take place in non-Spending Review years. The main features of Stage One are—

- the Scottish Government publishes a provisional expenditure plan (in a publication which has usually been called the *Annual Evaluation Report*) by 31 March (i.e. the end of the previous financial year). This document looks at progress against previous targets and gives details of the Government's priorities and provisional spending plans for the forthcoming Spending Review period;

- the Parliament's subject committees take evidence and make comments to the Finance Committee on the areas for which they have responsibility (e.g. the Justice Committee scrutinises the justice spending plans);
- the Finance Committee then makes recommendations to the Scottish Government in its Stage One Report;
- the report is debated by the Parliament, usually in June;
- the Scottish Government responds to the Finance Committee's report in detail; and
- individual Ministers respond as appropriate to subject committee reports.

Stage Two

16. During the second stage of the budget process, the Parliament's committees scrutinise the Scottish Government's Draft Budget, which sets out firm spending plans for the coming financial year. FIAG envisaged that this stage would allow for more detailed discussion of spending proposals and would provide the opportunity for alternative spending proposals to be debated and agreed. The key elements of Stage Two are—

- the Scottish Government publishes its Draft Budget, usually by 20 September (although in Spending Review years this may slip to early October);
- subject committees again scrutinise the areas of the budget relevant to their remit and report their findings to the Finance Committee. They may wish to examine the extent to which the Government has responded to their Stage One recommendations, if appropriate;
- at this point, subject committees can suggest alternative spending proposals to the Finance Committee (although these cannot increase the overall spend proposed by the Scottish Government because it is a fixed budget);
- the Finance Committee publishes a report which can contain proposals for an alternative budget, but again cannot increase the total spend proposed by the Government; and
- the Parliament debates a motion tabled by the Finance Committee on its report, usually in December.

Stage Three

17. The third stage of the process provides formal parliamentary authority for spending for the forthcoming financial year, through the passage of the budget bill. Although this is the third stage in the budget process, in common with other Scottish Parliament legislation, consideration of the bill itself has three distinct stages. The timetable for this legislative stage is truncated due to the level of parliamentary scrutiny that has taken place during the previous stages of the budget process. Under the Written Agreement, the Scottish Government must introduce the budget bill by 20 January (or the first sitting day thereafter). The procedures for parliamentary scrutiny of the budget bill are set out in Standing Orders (Rule 9.16). The main points to note are—

- the Parliament must consider the bill at Stage Three (i.e. the final debate and vote on the bill) no less than 20 days, but no more than 30 days after the bill's introduction;

- only a member of the Scottish Government can propose amendments to the budget bill however, the Parliament can vote down the bill in its entirety at either Stage One or Stage Three of the legislative process; and
- if a Budget Act is not in place by the end of the financial year, then the Public Finance and Accountability (Scotland) Act 2000 and the previous year's Budget Act provide for expenditure to continue at previous levels on a month-by-month basis.

OVERALL VIEWS ON THE CURRENT BUDGET PROCESS

18. It was clear that witnesses believed the model of budget scrutiny in the Scottish Parliament compares very favourably with those in other legislatures. Alex Brazier from Hansard Society commented that—

“The Scottish Parliament’s financial procedures for scrutinising the budget are very effective – certainly compared with those of Westminster...In fact, we have pointed out that the Scottish model, which allows committees to scrutinise, engage with the public and take expert evidence at various stages in the process, is much better, and we hoped that Westminster would move towards something approaching Scotland’s committee-based approach.”³

19. The Scottish Parliament’s Information Centre (“SPICe”) conducted a literature review of budget processes in a selection of other countries and its paper states that “increased legislative participation in budgeting is now widely recognised as leading to benefits like efficiency in spending and the fostering of consensus about budget choices”.⁴ During evidence, there appeared to be a consensus that this was the case and that the principles underpinning the original FIAG model for budget scrutiny remained relevant and appropriate. However, there was also consensus that the implementation of these principles needed to be improved. Table 7 in the SPICe paper compares the Scottish budget process with recognised international best practice in respect of budget scrutiny.

STAGE ONE

20. Stage One was originally conceived by FIAG to give the Parliament an opportunity to discuss strategic priorities for the following financial year. This would involve both subject committees and the Finance Committee, and FIAG envisaged that all committees would consult stakeholders and civic Scotland on the priorities as set out in documents produced for Stage One of the process. Committees were expected to make recommendations which could influence government thinking and, consequently, influence expenditure plans set out in the Draft Budget.

21. As mentioned previously, the budget process was amended in 2005 so that Stage One of the process would only take place in years when there was a UK Spending Review. This was agreed on the basis that budgets tended to change only marginally in non-Spending Review years and, therefore, committees expressed the view that there was unnecessary duplication and overlap between Stages One and Two. However, at this time it was anticipated that the next UK Spending Review would take place in 2006. This was delayed until 2007 and this meant that the Parliament could not carry out Stage One scrutiny because of the Scottish

Parliament elections that year. Therefore, due to the linkage with the UK Spending Review, Stage One of the process has not taken place since 2004.

Problems with the current system

22. In the evidence heard by the Committee, there was a consensus that Stage One as originally envisaged by FIAG had not worked particularly well. Peter Collings, a former member of FIAG and former Principal Finance Officer in the Scottish Executive summed it up by saying—

“Stage One was not our finest hour...it just did not fit with the way in which committees operated...our experience is that it does not work, so we should give up on it”.⁵

23. However, there was also a consensus that the underlying principle of Stage One (of taking a strategic overview of budgetary decisions) should be retained but in a different form. Many witnesses made the point that it would be difficult to carry out such a strategic review within the context of an annual budget process, given that more fundamental reviews and strategic questions about budgetary choices are likely to be longer-term issues and therefore perhaps more appropriate to a multi-year period. There was also a consensus that the process should not be directly linked to the UK Spending Review, given the practical problems this had caused. Professor David Heald, a former member of FIAG commented that—

“In a sense, in what FIAG called Stage One of the budget process – that is, the strategic look – one needs to detach from, and not get too involved in, the UK spending review system. One knows broadly what the numbers will be— there will not be much of an increase on the existing Scottish assigned budget.”⁶

24. Another issue which was discussed was the scope for change within the current process. One view is that because so much of the budget is already set (e.g. staffing costs and policies that have already been agreed) there was only scope to change the budget at the margins. Another view was that, theoretically, taking a long-term approach could allow a much more fundamental review and, therefore, it could be possible to realign resources much more significantly. Eddie Frizzell, the budget adviser to the Justice Committee stated—

“We have never managed to say “is it appropriate that the national health service should account for this big percentage of the zero-sum game that the Scottish budget largely is?”...Those big strategic questions are difficult to ask in any scrutiny process. That would be pretty hard to do during a budget process, but if members could find time to do that in a parliamentary session, the budget scrutiny process could be better informed.”⁷

25. In examining what could be achieved by scrutiny, Des McNulty MSP, former convener of the Finance Committee, said that—

“We need to be realistic about what the Finance Committee and the financial scrutiny process can do. Neither can replace the role of government in leading the choices

that are going to be made...The Finance Committee can investigate the consequences of those choices.”⁸

26. This was echoed by Alasdair Morgan MSP, a former deputy convener of the Finance Committee, who said that—

“It should not be the Finance Committee’s job to suggest that government policy should change...However, in the budget process, as opposed to debates on other issues, the Finance Committee should examine whether the money achieves the aim that the Government has set out to achieve.”⁹

Options for a revised Stage One

27. Taking this into account, an option that was suggested for how to revise Stage One would be to instigate a “budget strategy” phase of scrutiny at a particular point during a parliamentary session. This phase could complement the annual budget process (which would consist of scrutiny of the Draft Budget and Budget Bill) rather than being an integral part of it.

Defining a new budget strategy phase

28. During evidence, it was clear that witnesses felt that the Parliament needed to define what it means by a “budget strategy” phase. While it was clear that witnesses did not believe that the Parliament should attempt to take on the role of government, there was a view that this phase should seek to identify a government’s priorities (if not already clear); determine whether the budget is delivering on these priorities and whether a government’s policies match its priorities, and make suggestions for alternative strategies. If additional resources are available to support financial scrutiny (an issue which is discussed in more detail later in this report) these could be used to undertake much of the groundwork in assessing the Scottish Government’s overall strategy and perhaps some scenario planning. This groundwork would take place a number of months before detailed parliamentary scrutiny is undertaken to ensure that there is sufficient information and research to inform that scrutiny.

29. If this phase is to focus on longer-term strategic issues, then an integral part of scrutiny could be the examination of the outcomes which have been achieved to date. In this way, the Parliament would be able to assess whether or not the spending that had resulted from the Scottish Government’s policy direction had been deployed to best effect in support of this direction. The current Scottish Government has set up “Scotland Performs”, which is a website based on the National Performance Framework and which is designed to provide data to show whether or not the Scottish Government’s stated outcomes have been achieved. One point to note is that there will be an inevitable time-lag with reporting, given that data needs to be collected and analysed. In addition, at the moment the website does not provide a linkage between expenditure and outcomes. While difficulties inherent in such outcome budgeting are acknowledged, “Scotland Performs” could provide a means by which the Parliament could question the Scottish Government on its overall strategy. However, it cannot be viewed as the only tool to be used. The Cabinet Secretary acknowledged that—

“The approach [Scotland Performs] helps to inform the Government about its choice of priorities. Its performance can be assessed in the user-friendly fashion that is employed by the Scotland Performs website and all the supporting elements. Ministers may be subject to parliamentary scrutiny in a variety of other areas as part of the process.”¹⁰

30. Therefore, any information gleaned from Scotland Performs would need to be supplemented by information from other sources and from other methods of scrutiny. For example, Audit Scotland produces a number of overview reports focussing on different areas of policy. These could be used within a strategic phase or through the whole budget process and could provide useful evidence on whether resources are being targeted and used in the most efficient manner. Table 7 from the SPICe paper on comparative budget processes (see paragraph 19 above) cites the use of appropriate audit findings as one of the best practice criteria.

31. The next section of the report focuses on methods by which continuous financial scrutiny can be undertaken. Information gleaned from these scrutiny methods could also be used in a “budget strategy” phase.

32. While in the future there may be different administrations which may publish budgetary and performance information in a different form, any revised Written Agreement could seek to set out the minimum level and type of information necessary for this phase.

Timing

33. The previous section set out the type of information and methods of scrutiny that could be used in a strategic phase. However, the timing of the phase could have a direct bearing on which administration the information is likely to relate to, the amount and type of information available and the opportunity to influence spending decisions. Various suggestions were made as to the appropriate timing for a “budget strategy” phase.

34. From a practical point of view, it could be feasible to conduct a budget strategy phase at the beginning of a parliamentary session. In this way, an evaluation of the budgetary choices of the previous parliamentary session could be made to underpin any debate and, from a practical point of view, committees tend to be less busy at the beginning of a parliamentary session. However, given that the annual Budget Bill has to be enacted by the beginning of the next financial year and, therefore, the Draft Budget is usually published by 20 September to allow sufficient time for scrutiny, a “budget strategy” phase at the beginning of a session could overlap with scrutiny of the Draft Budget. The information available at this stage would relate to the previous parliamentary session and, therefore, it could be argued that evaluating the budgetary choices could be less relevant in the circumstances where there is a change in government.

35. A further option is that such a phase could take place half-way through a parliamentary session. The advantage of this would be that any government will have had time to ‘bed in’ and the consequences or outcomes of budget choices might be clearer by that stage. An argument against this could be that it may reduce the opportunity for a strategic review phase to influence choices before they are

made. Additionally, subject committees might be busier and, therefore, unable to devote sufficient time to such scrutiny. However, this could in part be addressed by undertaking financial scrutiny work on a continuous basis, outwith the formal budget process itself.

36. A further option would be to hold a strategy phase toward the end of a parliamentary session. However, an argument against this could be that the scrutiny process would be likely to become far more political in the run-up to an election. In addition, although this timing would allow for more budgetary and strategic information to be available which relates to the current session, it would allow little time for the direction of travel to be influenced or changed.

Process

37. The current Stage One requires subject committees to examine the budgets within their remit and produce a report for the Finance Committee, which in turn produces its own report. The question is whether a similar reporting structure could be used for a “budget strategy” phase. An argument in favour of this is that subject committees would continue to “own” their part of budget scrutiny and be formally involved with it. However, it could be argued that as a “budget strategy” phase would examine cross-cutting outcomes and priorities where policies and budgets contributing to those priorities come from a variety of subject areas (e.g. policies contributing to economic growth) such scrutiny may be difficult for subject committees. This could be overcome if subject committees were to undertake some form of joint scrutiny. This was done to a certain degree by the Health and Sport Committee in its approach to scrutinising drugs expenditure in Draft Budget 2008-09, when it invited members of the Justice Committee and Local Government and Communities Committee to attend its evidence-taking session.

38. Another option suggested in evidence is that this phase could be undertaken by way of a series of plenary debates rather than involving committees. However, it could be argued that it would be a disadvantage to lose the opportunity for the detailed scrutiny which committees could provide, and the co-ordinating role of the Finance Committee.

39. A further alternative would be for the Finance Committee to take the lead in the “budget strategy” phase. Assuming that additional resources are put in place to seek evidence of the linkage between budgets and priorities and to undertake scenario planning, the Finance Committee could build on this by taking on a cross-cutting role, examining all portfolios and inviting expert opinion in various areas. The Committee could also encourage subject committees to contribute to this, perhaps by way of a submission or short report.

40. Depending on the stage of a parliamentary session at which a budget strategy phase was held, this committee work could take place between February (after the passage of the annual Budget Bill) and June. The Finance Committee would produce a report and it could then be debated by the whole Parliament. The Scottish Government would then produce a response to this report. This option would allow for a fully cross-cutting review led by the Finance Committee with a plenary debate, although a potential downside might be that subject committees could feel disenfranchised.

41. Notwithstanding the form of parliamentary scrutiny, the ideas behind having such a strategic phase are that it allows a fundamental review and that the outcomes of any such review could influence (whether through formal or informal channels) subsequent scrutiny of the Draft Budget.

42. As outlined above, concerns were expressed in evidence about the operation of the current Stage One, as it had not taken place for four years due to the delay in the UK Spending Review and subsequent clash with the Scottish parliamentary elections. A suggested budget strategy phase might only take place once in every four year period (in line with witness comments that such a strategic review has to be longer-term). Therefore, consideration has been given to supplementing the strategic phase with on-going financial scrutiny which would not be part of the annual budget process. In its legacy paper, the Session 2 Finance Committee said that it recognised that financial scrutiny should not be focussed solely on the budget process and it made a number of suggestions as to how scrutiny could be improved (e.g. through scrutiny of financial memoranda). This was echoed in the evidence sessions during the review of the process and it is suggested that the following continuous scrutiny work could also be undertaken.

43. The Committee has considered the options for a revised 'Stage 1' of the budget process carefully. Given its experience of conducting a 'Strategic Budget Scrutiny' inquiry in the Spring of 2009, the Committee is convinced of the importance of having the opportunity to undertake a strategic phase of scrutiny.

44. The Committee acknowledges that the consistency of undertaking Stage 1 in recent years has been undermined by the way in which UK Spending Reviews have coincided with the cycle of elections to the Scottish Parliament. A significant part of the limitations of Stage 1 is, therefore, its fixed timing and dependence on matters which are outwith the control of the Parliament.

45. However, the 'Strategic Budget Scrutiny' inquiry in Spring 2009 was undertaken at the initiative of the Committee notwithstanding the fact that there was no UK Spending Review this year. The Committee undertook this inquiry having itself identified that the public finance context demanded a strategic phase to scrutiny.

46. The Committee, therefore, recommends that a strategic budget scrutiny phase should be undertaken at least once in each session of the Parliament. The Committee recommends that the timing and objectives of this phase should remain flexible so that it can decide them in the light of circumstances.

47. The Committee notes that particular work undertaken by subject committees at their own initiative – such as work by the Economy, Energy and Tourism Committee scrutinising Scottish Government measures to address economic recession, and work by the Local Government and Communities Committee on local authority finance – naturally complements the Finance Committee's Spring 2009 'Strategic Budget Scrutiny' inquiry in providing a base for detailed scrutiny of the Draft Budget in the Autumn. The Committee, therefore, recommends that the engagement of subject committees in a

strategic budget phase should be a matter for negotiation at the time, acknowledging the need for subject committees to have adequate notice so as to be able to incorporate scrutiny into their work programmes.

48. The Committee also considers that the information and documentation that would be required from the Scottish Government to support a strategic budget phase should be a matter for discussion with the Scottish Government under the Written Agreement between the Committee and the Government. The nature of documentation which would be useful will vary depending on the timing of the strategic phase (including timing in relation to UK spending reviews and budget announcements), and depending on the framework of objectives and performance being used by the Scottish Government at the time.

49. The Committee believes, however, that it is essential that a strategic budget phase allows scrutiny to be aligned with the policy priorities which the Scottish Government is pursuing through its budget. Documentation should, therefore, allow for the alignment of budgetary information with appropriate policy statements and performance monitoring material, including, in particular, the concordat with local government and *Scotland Performs*.

CONTINUOUS FINANCIAL SCRUTINY

50. The Committee considered how other elements of financial scrutiny might support budget scrutiny, particularly any budget strategy phase.

Scrutiny of financial memoranda

51. The Committee examines the financial implications of all legislation introduced to the Parliament through scrutiny of a bill's financial memorandum. On the basis of the information contained in the financial memorandum, the Committee agrees to adopt one of three levels of scrutiny. These are—

Level 1 – Using a standard questionnaire, the Committee seeks written evidence from organisations financially affected and any responses received are passed directly to the lead committee considering the bill. This is completed in advance of the lead committee's evidence session with the relevant minister at Stage One consideration of the bill.

Level 2 – The Committee seeks written evidence from affected organisations before taking oral evidence from the Scottish Government bill team and then producing a report. This report is issued to the lead committee in advance of evidence from the relevant minister.

Level 3 – The Committee seeks written evidence from affected organisations, takes oral evidence from affected organisations followed by evidence from the Scottish Government bill team, and then produces its report. Again, this report is issued to the lead committee in advance of evidence from the relevant minister.

52. The Committee believes that this is an extremely important form of financial scrutiny. This was also recognised by the previous Finance Committee, which made a variety of suggestions for ways to improve the quality of financial memoranda. The current Committee has followed these through with the Scottish Government and has also written to the Standards, Procedures and Public Appointments Committee recommending that it investigates possible changes to Standing Orders relating to the passing of bills that have financial memoranda that the Finance Committee has deemed inadequate. In addition, the Committee has requested that Scottish Government officials produce outturn figures for a small selection of bills so that these figures can be used to assess the accuracy of those in the original financial memoranda.

53. The Committee notes the recent experience within the Parliament of the difficulty of costing the financial implications of proposed amendments to Bills, as highlighted during consideration of the Education (Additional Support for Learning) (Scotland) Bill. This is not directly related to scrutiny of financial memoranda, but to the criteria for determining whether a Bill requires a financial resolution. The Committee does not have a role in this process. However, the Committee is concerned to ensure that the process is transparent and allows appropriate financial scrutiny and debate. The Committee, therefore, requests that the Standards, Procedures and Public Appointments Committee considers how this can be achieved.

Costing of policies and scrutiny of such policies

54. The Session 1 Finance Committee undertook a Financial Scrutiny Review. One of its findings was that, when spending announcements were made by the then Scottish Executive, it was difficult to ascertain from which budget heads the funding would come. Therefore, it recommended that each time there was a spending announcement it should be made clear from where the funding would come. This recommendation was accepted by the then Scottish Executive but does not appear to have been acted on consistently.

55. The Committee considered that to improve the current situation, whenever such a spending announcement is made, the Scottish Government could write to the Finance Committee and relevant subject committee alerting them to this, detailing the projected cost and the budget heads from which the money will come. As it does with financial memoranda, the Finance Committee could decide whether it wanted to scrutinise the financial implications of the policy and then it could pass any findings (although this need not be in the form of a formal report) to the relevant subject committee which in turn could decide if it wanted to undertake further scrutiny. Unlike the scrutiny of financial memoranda however, this would effectively be taking place once the decision had been made and there would be no legislation which could be amended or voted down. However, it could give committees an opportunity to influence and could give an evidence base to aid later scrutiny of the budget during the formal budget process.

56. One obvious disadvantage of this approach is the amount of time which committees (particularly the Finance Committee) might need to devote to this – particularly if there were no financial threshold meaning that every spending

announcement (no matter how minor in relative terms) would need to be considered, which would require at least preliminary work on the costings to be carried out.

57. An alternative approach would be to incorporate information on spending announcements into budget revisions. Budget revisions are the means by which parliamentary approval is sought for in-year transfers between budgets and for the allocation of any 'Barnett consequentials' that arise from any in-year decisions of the UK Government. While any additional spending or different allocation of spending should be evident in budget revisions, it can be difficult to track expenditure in this way and it has been argued that there is a lack of transparency. Therefore, the Committee considered that the Scottish Government could be asked to include in the documents which accompany budget revisions a list of spending announcements made since the Draft Budget or previous budget revision (whichever is appropriate) and detail the cost of any announcements and from which budgets the money will be taken. An advantage of this approach is that it is a more efficient use of the Committee's time. A disadvantage is that the scrutiny could in some cases take place some time after the decision has been made.

58. The Committee recommends that the Scottish Government should consider a system (the terms of which should be incorporated within the Written Agreement between the Committee and the Government) which requires it to advise the Committee of all policy announcements which involve expenditure above an agreed threshold. For example, thresholds could be set at £1 million pounds for one-off costs, or £500,000 for costs which will be recurring resource commitments. This would roughly parallel the existing threshold of £1 million beyond which the Scottish Government must seek the Committee's approval to enter into contingent liabilities. The system should include information on the budget lines from which the expenditure is being made. The Committee will then consider on a case-by-case basis whether to seek further information on any particular announcement. The Committee also recommends that the accompanying documents for the Budget Bill and for all in-year budget revisions should include a complete list of all such announcements.

Committee inquiries

59. The Session 2 Finance Committee, in its legacy paper, suggested that subject committees might want to mainstream financial considerations into any inquiries they were undertaking. As well as forming an important part of any inquiry, this could help to provide an evidence base for Draft Budget scrutiny. This issue also commanded some support during the evidence sessions on the budget process review. Jan Polley, budget adviser to the Rural Affairs and Environment Committee, summed it up by saying, "Policy scrutiny and budget scrutiny are two sides of the same coin; in fact, policy scrutiny without budget scrutiny is quite weak".¹¹

60. Some practical difficulties, however, have been highlighted. For example, committee inquiries focus on specific issues and, therefore, while it might be possible to make budgetary recommendations in the particular area covered by the inquiry, it might not have been possible to examine other parts of the budget within the

committee's remit. However, if a budget strategy phase were put in place as outlined earlier, this could help in providing "the bigger picture".

61. The Committee recognises that having a revised system of financial scrutiny, including a budget strategy phase and elements of continuous financial scrutiny as outlined above, would require additional resources to support committees. The issue of resources to assist financial scrutiny is discussed later in this report.

62. The Committee suggests, in line with the recommendations of the Session 2 Finance Committee, that subject committees should continue to develop the way in which they mainstream financial considerations into any inquiries they undertake.

STAGE TWO - DRAFT BUDGET SCRUTINY

Current process

63. Currently, Stage Two of the budget process focuses on scrutiny of the Scottish Government's Draft Budget. Subject committees are asked to address a series of questions posed by the Finance Committee in guidance which it issues. (However, it is ultimately for the committees themselves to decide the particular focus of their scrutiny and the main issues that they want to address in their reports to the Finance Committee).

64. FIAG originally envisaged that committees would build on the strategic work undertaken at Stage One of the process by analysing the response they received from the relevant Minister at Stage One, and examining the Draft Budget to ascertain whether the necessary changes had been made to expenditure as a result of any strategic recommendations.

65. However, it became clear that the process was not operating as originally envisaged, and this led to the revision to the Written Agreement in 2005 whereby Stage One scrutiny would take place only in years when there was a UK Spending Review.

66. As outlined at the beginning of this report, this change in itself caused problems due to delays in the UK Spending Review and the Scottish parliamentary election. During scrutiny of the Draft Budget 2008-09, concerns were raised that no formal strategic evaluation had been carried out since 2004 and that scrutiny at Stage Two may have less opportunity to be effective because of this.

67. Professor David Bell, the Finance Committee's budget adviser, commented that, "if we revise Stage One, we must think closely about how it articulates with Stage Two."¹² The Committee has outlined options for changes to Stage One of the process, which would provide for strategic scrutiny to take place at a set time during a parliamentary session. It is envisaged that findings from such a strategic review, coupled with issues which may arise from continuous financial scrutiny by both the Finance Committee and subject committees, could then influence subsequent draft budgets. This is akin to what was originally envisaged by FIAG.

68. There appeared to be a consensus among witnesses that Stage Two should continue to focus on scrutiny of the Scottish Government's Draft Budget. However, there was some debate around the timetable for this stage and the Parliament's ability to put forward alternative spending proposals.

Timetable

69. As set out at the beginning of this report, the normal timetable for scrutiny of the Draft Budget is that the document is published by 20 September, subject committees are asked to report to the Finance Committee by the middle of November and the Finance Committee publishes its report in the first or second week of December. A debate on its report takes place, usually in the last week before Christmas recess.

70. Subject committees have frequently raised concerns over the time available to scrutinise the Draft Budget. However, the annual Budget Bill must be approved and enacted before the start of the financial year. Therefore, the Bill has to be considered by Parliament during January and February. As scrutiny of the Draft Budget can essentially be seen as the pre-legislative phase of the process, the Finance Committee's report and debate has to take place in December to allow time for the Scottish Government to consider any alternative proposals that might be put forward before it publishes its Budget Bill. As set out in the Written Agreement, the Scottish Government responds to the Finance Committee's report before the Stage One debate on the Budget Bill.

71. Although the Draft Budget should be published by 20 September, in some years the document has been published at the beginning of September. Early publication of the document is likely to allow subject committees a little more time for scrutiny.

72. The Committee recommends that the Draft Budget should be published as early as possible in September in non-Spending Review years on the basis that the amount of money that is available to the Scottish Government will generally be fixed and known.

73. UK Spending Reviews have normally been published in July. In previous Spending Review years, the then Scottish Executive has usually published its own Spending Review in September, but the Draft Budget was not published until October. This timing can cause considerable difficulties for subject committees.

74. In 2007, the UK Spending Review was not published until October and the Scottish Government could not, therefore, publish its documents until November. Due to the time constraints, the Spending Review and Draft Budget were published as one document. This helped to preserve more time for committee scrutiny.

75. The Committee recommends that in future Spending Review years the Scottish Spending Review and Draft Budget should be published as one document in September to allow slightly more time for scrutiny.

76. Earlier in this report, the Committee suggested that subject committees may wish to incorporate specific financial scrutiny into any inquiry work that they undertake during the year. While it is recognised that there can be certain limitations with this

approach, it may be possible to focus on particular areas of spending and to take evidence prior to the Draft Budget being published. Such evidence-based work could then feed into committee consideration of the Draft Budget. In addition, it would be hoped that the outcomes of a “budget strategy” phase would provide an evidence base for scrutiny. Undertaking such preparatory work could alleviate some of the timetabling difficulties that subject committees might experience.

77. The truncated process for 2008-09 budget scrutiny meant that there was no separate Finance Committee debate in December 2007. Instead, the Committee’s report was published in time for the Stage One debate on the Budget Bill itself. The timing also meant that the Scottish Government could not respond to the Committee’s report in time for the Stage One debate, nor could it take into account in the Budget Bill any alternative proposals put forward by the Committee.

78. The Committee believes that ongoing financial scrutiny by subject committees, and the recommendations above on the timing of publication of the budget documents, could help alleviate some of the timetabling difficulties.

Alternative spending proposals

79. Under the current process, subject committees can put forward alternative spending proposals in their reports to the Finance Committee and individual MSPs can do this by making representations to the Finance Committee. The Finance Committee then makes recommendations in its own report. If the Finance Committee agreed to put forward alternative spending proposals, these would be detailed in the motion for debate on its report. (As there was no separate Committee debate for the 2008-09 Budget, this was done by way of a reasoned amendment to the Scottish Government’s Stage One motion on the Budget Bill.) Any subject committee or individual MSP could submit an amendment to the Finance Committee’s motion, which could detail any additional or different proposals to those in the Finance Committee’s report. (Again, in the 2008-09 Budget, this was done by way of a reasoned amendment to the Scottish Government’s motion.)

80. There is no set template for alternative spending proposals. Each year, the Finance Committee issues guidance to subject committees, which includes details of the form that alternative spending proposals should take. Generally, the guidance is that proposal cannot seek to increase the overall total budget (i.e. that suggested increases in one area should also have compensating savings in another area). The guidance also asks that alternatives (both increases and savings) should be within the remit of the committee making the proposal, on the assumption that it will have been able to establish an evidence base for the proposals. This also avoids the Finance Committee having to act as an arbiter on matters on which it has no evidence.

81. Questions have been raised as to whether it is ever realistic to expect subject committees to come up with such precise alternative spending proposals, particularly as it would be difficult ever to have the level and breadth of detailed information required. Professor David Heald, a former member of FIAG, stated that—

“Substitute proposals cannot work unless there is a system that makes available to committees and Opposition parties the capacity to cost such proposals; otherwise, the Government – as at Westminster – has complete control, because it can just ridicule the costings the other people put forward. The only people who can reliably cost are in the Scottish Government finance department.”¹³

82. However, in discussing costings more generally, Dr Peter Collings, a former member of FIAG and former Principal Finance Officer in the Scottish Executive, said that—

“The key point is that costing is not the hard bit. We need some accountants who are good at costing, but having hordes of them is not what it is about. The difficult part is filling in sufficient details about a policy that there is something firm to cost.”¹⁴

83. The compensating savings for the increases to the Justice and Rural Affairs and Environment portfolios contained in the Scottish Government’s amendments to the Budget Bill in January/February 2008 came from completely different portfolios. It could, therefore, be argued this it is difficult for committees to construct proposals that are confined to increases and compensating decreases from within their own remit portfolio. However, a counter-argument is that proposals should be evidence-based so that the Finance Committee and the Parliament can assess what the effect of a cut in a particular area would be.

84. The issue of additional resources is discussed later in this report. However, one aid to committees could be any work that has been done during a strategic phase and supplementary work (such as committee inquiries) to provide an evidence base for putting forward alternative spending proposals. In addition, the Scottish Government is now due to publish its consolidated accounts at the end of September each year and this will show outturn figures. The Draft Budget only shows the budgeted and not the actual figures for previous years and, therefore, committees could also use the consolidated accounts to aid scrutiny by being able to assess what was actually spent within a particular portfolio.

85. The Committee believes that subject committees should still, wherever possible, cost any alternative spending proposals they wish to make. Subject committees will have an evidence-base which allows the Finance Committee to assess the merits or otherwise of the proposals. Such proposals should continue to be made from within each committee’s remit. However, the Finance Committee acknowledges that uncosted recommendations for spending which fall short of being formal alternative spending proposals have also been submitted in recent years and have nonetheless shaped debate on the budget.

Budgetary information

86. During scrutiny of the Draft Budget 2008-09, concerns were raised over the presentation of information in the budget document and the Finance Committee made a number of recommendations for improvement in its report. This resulted in a number of changes being made to the presentation of information in the 2009-10 Draft Budget.

87. The Written Agreement does not specify the level and type of budgetary information that should be contained within the Draft Budget. Rather, these are issues which this and previous Finance Committees have examined in the context of their reports on the Draft Budget as the document has evolved. Therefore, this issue was not directly addressed in the Committee's consultation paper.

88. However, a recurring concern for this and previous Finance Committees has been the linking of expenditure to priorities. In its legacy paper, the Session 2 Finance Committee explained that this issue had been raised with the then Scottish Executive over a number of years. The then Executive's response to that Committee's report on the 2007-08 Draft Budget stated that, "in most cases, the impact of the cross-cutting themes is on how the range of policies and programmes are delivered. This is not necessarily reflected in spending plans." On this basis, the Committee concluded that—

"If it is the case that a precise definition of costs which directly contribute to cross-cutting priorities and an explanation of how those priorities have been reflected in portfolio allocations cannot be given, then the Committee's view is that it would be more transparent if the development of cross-cutting themes and priorities were explored in a separate strategic document. Every effort should still be made to link resources to priorities but having a separate document, possibly produced at the same time as the Draft Budget could give more detailed information about how programmes have been delivered."¹⁵

89. Although, as stated earlier in this report, "Scotland Performs" is a mechanism by which government performance can be assessed there is currently no direct link between expenditure and outcomes. However, Scotland Performs is an examination of past performance and the concerns of this and previous committees have been that it is difficult to see how priorities have been reflected in actual spending plans.

90. In its ongoing budget scrutiny the Committee continues to make recommendations for improvement in budgetary information – such as developing further the explicit link between expenditure and policy priorities. The Committee acknowledges the way in which, throughout the period since 1999, the Scottish Government has responded positively and flexibly to requests to provide information and improve the presentation of budget documents. The Committee considers, therefore, that continuing development of budgetary information can remain a matter for its regular budget reports, and that its Written Agreement with the Scottish Government is the appropriate means for formalising any new information requirements.

STAGE THREE

91. The third stage of the budget process provides formal parliamentary authority for spending for the forthcoming financial year, through the passage of the Budget Bill. FIAG considered that this part of the process should be largely formal, given that detailed scrutiny would have been undertaken during Stage Two of the process. FIAG believed 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 was

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.

92. During evidence, there were no arguments advanced to change Stage Three of the process, which is the passage of the Budget Bill. There appeared to be a general acceptance of FIAG's original rationale that this should be the formal authorisation stage which follows the detailed scrutiny of the Draft Budget.

93. Under the Written Agreement, the Budget Bill must be published by 20 January (or the first sitting day thereafter) and, under Standing Orders, the Budget Bill must be considered at Stage Three (i.e. the final debate and vote on the Bill) no less than 20 days, but no more than 30 days, after the Bill's introduction. Usually this means that, in addition to the Finance Committee's debate just before Christmas, there is a Stage One debate on the Budget Bill toward the end of January and a Stage Three debate around two weeks later.

94. The Committee acknowledges that the previous Finance Committee posed the question in its legacy paper as to whether this third stage of the budget process could be rationalised in some way to make it "more meaningful". However, the Committee accepts the principle that the budget, having been considered at pre-legislative stages, should continue to be enacted formally by a Bill following the modified three-stage parliamentary legislative process as at present.

95. The Committee considers that the current timetable and procedures for the Budget Bill scrutiny provide an appropriate balance between Scottish Government control of budget initiation and opportunity for scrutiny and influence by the Parliament. There is no evidence to support change to this.

96. The opportunity for pragmatic rationalisation of the process (for example, combining debates which would otherwise have involved duplication as they would have fallen very close together, as happened in early 2008) can be considered flexibly by the Committee and negotiated in the circumstances of each year's process. This does not require any changes to current procedures.

RESOURCES

97. The Committee also considered the research and advisory resources required to support effective budget scrutiny. The process is currently supported by SPICe and by committee clerks, together with a "standing" Finance Committee budget adviser (normally appointed on a two-year contract) and advisers to subject committees who are contracted for short periods (usually up to 15 days). There was a consensus among witnesses that further resources would be required to support financial scrutiny, and various options were discussed.

98. One suggested option was to ask the Scottish Government to establish within its own Finance Department a capability to cost alternative proposals put forward by committees. However, it was argued that this could constitute a conflict of interest for the civil servants themselves and that opposition parties might not have confidence

in the responses they received, given that a degree of judgement might require to be exercised and that there might be a range of answers for costing policies.

99. The Committee also considered whether the current process and resources were appropriate and sufficient to deal with any additional financial powers (and particularly any revenue raising powers) that might be devolved to the Scottish Parliament in the future. The Cabinet Secretary for Finance and Sustainable Growth stated that, “the current budget process could adequately accommodate any consequence of acquiring wider revenue-raising powers”.¹⁶ However, it was clear that, even if the process did not need to be amended, additional resources would be required. It was suggested that in such a situation the Scottish Government might develop more of a “Treasury” type challenge function and, if so, this would need to be reflected in any additional resources or office in the Parliament.

100. The option preferred by most witnesses was to have an additional resource within the Parliament. The form this could take depends primarily on what a revised budget process and overall system of financial scrutiny would look like. For example, if the requirement was to scrutinise the Scottish Government’s figures and cost alternative proposals (by way of getting source data from the Scottish Government and applying assumptions), then this could possibly be achieved through additional, dedicated resources in SPICe. However, if in addition to this there was a requirement for more ‘political’ analysis such as scenario planning and forecasting trends in spending, then there might need to be further additional resources.

101. There was a clear consensus that, whatever form they were to take, further resources would be required to ensure robust financial scrutiny. Professor Ian McLean from Oxford University stated that, “For a system to run well – whether that is parliamentary budget staff or committee advisers – it needs to be well resourced.”¹⁷

A parliamentary budget office

102. A number of witnesses considered the concept of a parliamentary budget office – some form of dedicated unit to provide research and advice based in the Parliament, and therefore independent of the Scottish Government. There was no clear consensus among witnesses in the evidence sessions in June 2008 on the form such a unit should take and its primary purpose.

103. Alasdair Morgan MSP, stated that—

“I am not necessarily against such an organisation but, regardless of the cost, one would have to think long and hard about what would happen to it. Like most organisations, it would develop a life of its own and would want to justify its existence. It would grow and might begin to drive the process rather than by driven by it.”¹⁸

104. Professor Irvine Lapsley from the University of Edinburgh raised some concern about the recruitment and retention of people to perform this function, and this was echoed to a certain extent by Des McNulty MSP, former convener of the Finance Committee, who said—

“I am a bit agnostic about the idea of a budget office, largely because we would have to put a lot of resource into it to get the calibre of individual that we have had as budget advisers.”¹⁹

105. However, Alex Brazier of the Hansard Society (which has undertaken research on budget scrutiny and the resources required to support it effectively) commented positively on the financial role of the Scrutiny Unit which has been set up at Westminster—

“The House of Commons now has a scrutiny unit of about 20 people who analyse the estimates and help to move towards better scrutiny. We went much further and called for a parliamentary finance office, which would be a bit like the National Audit Office but for the Parliament alone.”²⁰

106. The Committee decided to explore the different models of parliamentary budget support in more detail. In June 2009, members held discussions by video-conference with analysts supporting the Virginia state legislature’s House Appropriations Committee and Senate Budget Committee, and with the Parliamentary Budget Officer of the Canadian Parliament and some of his staff. A summary of the key points raised in these discussions is included at [Annexe B](#). The Committee also received written material on the models followed by the Congressional Budget Office in the United States, the House of Commons Scrutiny Unit and the Finance Committee of the Danish Parliament. A SPICe paper summarising key points from the five different systems is also included as part of the evidence volume.

107. The Committee also wrote to the Scottish Parliamentary Corporate Body, inviting it to consider the resources available to support budget scrutiny. The SPCB has agreed that it wishes to put in place a dedicated resource to supplement the support already available to committees and provide extensive specialist support. In the meantime it will seek to make temporary enhancements to existing resources through secondments.

108. The Committee welcomes the SPCB’s decision that it wishes “to put in place a dedicated resource independent of government and located within the Parliamentary Service under the SPCB’s general direction”. The Committee agrees with the SPCB that “to provide the required level of support significant resources would be required” and also recognises the “current budgetary position”.

109. While acknowledging that the administrative arrangements and resources for parliamentary support are a matter for the SPCB, the Committee welcomes the SPCB’s commitment to involving the Committee in developing its proposals. The Committee agreed that it would be useful if it has the opportunity to consider an options paper from the SPCB on the proposals as they relate to the role and purpose of the dedicated resource. From the evidence it has heard in this inquiry, the Committee considers that the issues outlined in paragraphs 110-114 below are key elements, and looks forward to discussing them with the SPCB.

110. The Committee recommends that enhanced resources are configured in a way that, among other roles, can support delivery of the enhanced financial scrutiny the Committee recommends in this report, namely:

- Supporting the identification of appropriate trends and issues to assist in planning and delivering a strategic phase of budget scrutiny;**
- Assisting in the consideration of alternative spending proposals in the budget process by individual members, subject committees and the Finance Committee;**
- Supporting Finance Committee consideration of the costing of policy announcements;**
- Supporting the budgetary aspects of committee inquiries so that the mainstreaming of financial scrutiny continues to be enhanced; and**
- Supporting ongoing scrutiny of financial memoranda accompanying Bills, and potential post-legislative consideration of costs associated with legislation.**

111. The Committee considers that a parliamentary budget resource should be capable of providing independent advice and support to MSPs on budgetary trends and issues, undertaking independent costing of specific spending proposals (whether proposals from the Scottish Government or others) and providing research on all aspects of public finances as they affect the Scottish Government or Parliament.

112. The Committee's view is that requests from committees should continue to have priority within the work of the proposed resource but that it is also likely that there will be a lot of demand from individual MSPs. It is also expected that the resource will undertake other work on its own initiative. Consideration should be given to how the resource might draw on external research and reports from organisations to fulfil its functions without duplicating work done elsewhere. Its work should be published with full details of assumptions to allow better understanding of how costs are determined, and to facilitate debate.

113. The Committee is of the view that, in order to be effective, a parliamentary budget office must have an agreed level of access to appropriate information from the Scottish Government. The key types of material to which access will be required will be refined with experience of the operation of the budget office, and over time it will enhance its ability to identify and interrogate key sources.

114. The Committee acknowledges the co-operation shown by the Scottish Government to date in providing information on request, and in reaching agreement with the Committee (through the Written Agreement and through responses to various committee reports) on refining and improving the presentation of budgetary information. For example, parliamentary committees have welcomed the willingness of the Scottish Government to make available budget information at level 4 detail to committees on request. The Committee recommends that the Scottish Government enters into discussions with it,

under the framework of the Written Agreement or a separate protocol, on the appropriate access to information for the parliamentary budget office.

OTHER ISSUES

Terminology

115. The Committee's view is that it is potentially confusing that the budget process is divided into three stages using the same terminology as the three-stage process for bills. Therefore, **the Committee recommends that the stages in the process should be renamed to avoid any confusion and to describe the stages in a more meaningful way. The Committee recommends that the three stages should be called the "Budget Strategy phase", the "Draft Budget Scrutiny phase" and the "Budget Bill phase".**

Proposed changes to the format of Budget Bills

116. The current Written Agreement requires the Scottish Government to set out absolute resource expenditure limits for individual entities or portfolios. In evidence to the Committee, the Cabinet Secretary stated that, "the Government is obliged to balance every budget item by portfolio...However, such an 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."

117. The Cabinet Secretary has, therefore, proposed that parliamentary approval should be sought for five entities rather than 13 as at present (a single total for the Scottish Government – including all Directorates General, the Scottish Executive Administration, the General Register Office for Scotland and the National Archives of Scotland - plus the four "direct funded bodies", i.e. the Parliament, Audit Scotland, the Forestry Commission and the Food Standards Agency). The Finance Secretary confirmed that this one total for the Scottish Government would be supported by indicative Cabinet Secretary portfolio totals and that, "details of budgets by Cabinet Secretary portfolio would still be provided in the supporting budget documents to both the Act and in-year revisions as at present."²¹

118. The Cabinet Secretary also said that he wanted to be sure that Audit Scotland was comfortable with the new arrangements and that the Finance Committee, Audit Scotland and the Scottish Government should properly explore these issues if the Scottish Government decides to go ahead with the proposal. **The Committee is content to pursue this issue with the Scottish Government and Audit Scotland.**

ANNEXE A: EXTRACT FROM THE MINUTES OF THE FINANCE COMMITTEE

5th Meeting, 2008 (Session 3), Tuesday 5 February 2008

Work programme (in private): The Committee considered its work programme. The Committee agreed to consider further its approach to a review of the budget process at future meetings.

8th Meeting, 2008 (Session 3), Tuesday 18 March 2008

Review of the budget process (in private): The Committee considered its approach to a review of the budget process. The Committee agreed to launch the inquiry as soon as possible through the use of a consultation paper and to hold a series of oral evidence taking sessions in June 2008.

15th Meeting, 2008 (Session 3), Tuesday 27 May 2008

Review of the Budget Process (in private): The Committee considered a discussion paper from its Budget Adviser.

16th Meeting, 2008 (Session 3), Tuesday 10 June 2008

Review of the Budget Process: The Committee took evidence, in a round-table discussion, from—

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.

17th Meeting, 2008 (Session 3), Tuesday 17 June 2008

Review of the Budget Process: The Committee took evidence from—

Jo Armstrong, Centre for Public Policy for Regions;

Alex Brazier, Director, Parliament and Government Programme, Hansard Society;

Professor Irvine Lapsley, Institute of Public Sector Accounting Research, University of Edinburgh;

Professor Iain McLean, Professor of Politics, Oxford University.

18th Meeting, 2008 (Session 3), Tuesday 24 June 2008

Review of the Budget Process: The Committee took evidence from—

John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth, and John Williams, Head of Finance Co-ordination, Scottish Government.

19th Meeting, 2008 (Session 3), Tuesday 9 September 2008

Review of the Budget Process (in private): The Committee deferred consideration of the Review of the Budget Process to a future meeting

21st Meeting, 2008 (Session 3), Tuesday 23 September 2008

Review of the Budget Process (in private): The Committee agreed that it would consider a draft report on the review at a future meeting.

27th Meeting, 2008 (Session 3), Tuesday 18 November 2008

Review of the Budget Process (in private): The Committee agreed to defer consideration of a draft report until a future meeting.

3rd Meeting, 2009 (Session 3), Tuesday 3 February 2009

Review of the budget process (in private): The Committee considered a draft report, agreed to seek further information on options for parliamentary support for budget scrutiny, and agreed to consider the draft report further at a subsequent meeting.

7th Meeting, 2009 (Session 3), Tuesday 10 March 2009

Review of the budget process (in private): The Committee considered a draft report and agreed to consider it further at a future meeting.

8th Meeting, 2009 (Session 3), Tuesday 24 March 2009

Review of the budget process (in private): The Committee considered how to proceed with the review. The Committee agreed to hold additional evidence sessions on the issue of support for budget scrutiny.

16th Meeting, 2009 (Session 3), Tuesday 16 June 2009

Review of the budget process (in private): The Committee considered further evidence heard on the inquiry and agreed to consider a revised draft report at its next meeting.

17th Meeting, 2009 (Session 3), Tuesday 23 June 2009

Review of the budget process (in private): The Committee considered a draft report and agreed to consider and agree a further draft by correspondence.

ANNEXE B: EVIDENCE ON BUDGET OFFICES

Finance Committee

Videoconferences with the Virginia State Legislature and the Office of the Canadian Parliamentary Budget Officer

Note by the clerk

Introduction

1. This note provides a summary of the key points raised during the two videoconferences held on Tuesday 9 June 2009. It may be helpful to also refer to the paper prepared by SPICe which summarises written material received from the organisations and which had already been published (attached as an annexe to this paper).

Virginia State Legislature

2. Members spoke to Susan Massart, Legislative Fiscal Analyst at the House Appropriations Committee and Joe Flores, Legislative Financial Analyst at the Senate Finance Committee. The main points raised during the discussion are set out below.

The imbalance between resources available to the Executive and Legislature

3. Officials from Virginia stressed that in terms of information gathering, they were very much “at the behest of the administration” but that if you knew “the right question to ask” then it was possible to gather useful data from executive agencies etc. They also noted that the situation varied between different states, for example in Minnesota staff in the legislative branch had access to all executive-held data. However, this could be seen as a hindrance, as it was harder to identify the broad trends in spending when faced with the minutiae of large amounts of data. In addition to receiving data solely from the Executive, officials noted that they also have access to reports from the Auditor of Public Accounts and Joint Legislative Commissions on major policy areas to verify information and test analysis.

4. In terms of their own resources, the House Appropriations Committee has 8 or 9 staff and the Senate Finance Committee has 10 staff – mostly specialist policy and financial analysts. They noted that staff in the budget office of the Executive branch tended to be “technicians” as opposed to having a wider policy focus, although they were well staffed compared to the committees. Due to their staffing levels, the staff of the committees were mostly reactive, rather than proactive in their work and could not possibly track all spending programmes. They therefore only tended to track those that were of special interest, those that were flagged by Members, or, on occasion raised by lobbyists and others. However, officials also pointed out that House and Senate Members and Staff were often in office for longer periods than the Governor and Executive staff, and therefore had something of an advantage due to their greater “corporate memory” of key budgetary issues.

Capacity to assist committees in putting forward alternative proposals

5. Officials were of the view that they did have the capacity to assist Members in putting forward changes to the Executive’s budget proposals. They cited an example of the creation of a “reserve” of \$160m in the previous year’s budget process, to

assist with lessening the impact of a predicted major shortfall in the budget (\$3.7bn out of a \$36bn budget).

“Fall retreat” and analysis provided to Members

6. One element of support that officials stressed as being extremely useful was the “fall retreat”, where staff from both the House and Senate get together with Members for an overnight awayday to spell out the current budget situation and future projections and options ahead of the forthcoming budget process. Last year, 35-37 of 40 senators attended. Staff present their own analysis of spending programmes, although all their analysis is based on core data provided by the Governor’s office. This analysis is published on the web following the fall retreat. Officials stressed that, while there is agreement with the Executive branch on the core data and figures, there can be disagreement on how this core data is interpreted.

Impact of elections and mechanisms for medium to longer term analysis

7. It was also noted that with elections to the House every 2 years, the electoral cycle can have an impact on budget scrutiny. During elections, staff respond to a high volume of questions from Members on history of spend in certain areas and are able to provide long term tracking of key spending programmes and outcomes, for example on public safety, mental health etc. Between sessions, staff also go out “into the field” to research spending areas in depth.

Canadian Parliamentary Budget Officer

8. Members spoke to Kevin Page, Parliamentary Budget Officer, Sahir Khan, Assistant Parliamentary Budget Officer, Dr. Mostafa Askari, Assistant Parliamentary Budget Officer, and Ramnarayanan Mathilakath, Director of the Program Analysis & Costing on the Expenditure and Revenue Analysis Team. The main points raised during the discussion are set out below.

Establishment of the Canadian PBO and initial output

9. The Canadian Parliamentary Budget Officer (PBO) was established through legislation passed in December 2006 and Kevin Page was appointed as the first PBO in March 2008. The PBO’s role is to provide independent analysis of the economy and the public finances, and their initial work was to provide a number of “top-down, peer-reviewed” reports to parliamentarians in order to “raise the level of debate” prior to publication of the Government’s budget proposals. Officials explained that this immediately entered the PBO into the debate as a new reference point, although they stressed that their role was to “support” the debate, not become a part of it. Early reports included studies of Canada’s role in the war in Afghanistan and on aboriginal education. Despite these being controversial topics, officials made clear that their analysis focussed solely on finance and stayed completed away from policy-related discussions. Reports are provided on an embargoed basis a “number of days” prior to publication to the Government and the requesting Member.

10. In addition, Canada has recently entered a period of minority government, having been under majority government for a number of decades. Officials stated that Members had commented that the establishment of the PBO, coupled with the minority government situation meant that there was an opportunity to “resurrect rights and obligations of parliamentarians” in carrying out effective budgetary

scrutiny. This had, in their view, lain somewhat dormant during the period of majority rule.

Emerging issues for the PBO – independence etc

11. Officials talked a lot about the need for the PBO to be totally independent and free from “interference”, and that their independence had been challenged in the wake of the publication of the two reports mentioned above. They were clear that in order to function properly, the PBO needed both legal and functional independence.

12. There are currently ongoing issues around the PBO’s future budget and staffing complement, and in the officials’ view, the office was currently heavily under-resourced with regard to its extremely wide-ranging mandate. Their view was that, if their own budget was challenged, then that constituted a direct threat to their independence, as the organisation must have the ability to hire the right people to do its work.

13. Another area of recent controversy has been that while the PBO currently sits within the Parliament Library (broadly equivalent to SPICe), the post is appointed by the Prime Minister, which had given rise to difficulties. Officials were of the view that there were a variety of lessons that could be learned from the Canadian experience with regard to framing any legislation used to create a budget office/officer, particularly around defining and safeguarding independence and transparency.

14. Officials were clear that, from examples in other administrations, the establishment of a PBO-like structure in any system is a “disruptive event”, but that, as people get used to having a “new data point” in the debate, the controversy fades. In their view, this process can generally take around two years, but during this period it is crucial that the PBO is given full independence and is given the chance to establish itself free from interference.

Transparency

15. Officials were again very clear on the need for transparency in their work as a key means of demonstrating their independence, and the PBO publishes all of its output on its website following the embargo arrangements outlined above (in contrast to the Library, the Parliamentary Department in which the PBO is based which has traditionally provided confidential advice to Members). In their view this is a crucial tool in showing their objectivity and to help avoid the impression that they are a tool for the Opposition. They also stressed the importance of a regular dialogue with the Government.

Imbalance between Executive and PBO and access to data

16. In terms of access to government data, officials noted that the PBO “ran into friction right at the start” and had struggled to get the information they needed in the right form from Government agencies and departments. However, as part of the PBO’s working practices, they publish all information requests to the Government on their website. In addition, officials pointed out that the staff working at the PBO were very experienced in working in the public finance area and “knew the system”. Therefore, if information was incomplete or not forthcoming, they were able to build models and come up with their own data sets, which had been proven to be reliable

and credible. But, again, it was stressed that this was only possible if the PBO was able to hire the right people.

Prioritising output

17. Officials stated that, alongside regular publications and presentations to committees on their own fiscal projections and assessments of the economy, in terms of other projects, they decided their priorities themselves, based on the concepts of “risk and materiality”. With their current resources, officials were clear that there was no way they could respond to all requests made by Members. Indeed, they saw it as a key plank of their independence that the PBO could produce its own reports without direction from Parliamentarians.

Allan Campbell
Assistant Clerk to the Committee

Footnotes:

¹ Scottish Parliament, Meeting of the Parliament, *Official Report*, 8 November 2007, Col 3292

² The Scottish Office. (1999) *Principles of the Scottish Parliament’s Financial Procedures — Final Report by the Financial Issues Advisory Group*. The Scottish Office. Available at:
<http://www.scotland.gov.uk/government/devolution/fiag-00.asp>

³ Scottish Parliament Finance Committee. *Official Report*, 17 June 2008, Col 629

⁴ Scottish Parliament Information Centre (2008). Available online at
<http://www.scottish.parliament.uk/business/research/briefings-08/SB08-27.pdf>

⁵ Scottish Parliament Finance Committee, *Official Report*, 10 June 2008, Col 615

⁶ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Col 601

⁷ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Col 606

⁸ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Col 610

⁹ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Cols 595-596

¹⁰ Scottish Parliament Finance Committee. *Official Report*, 7 October 2008, Col 726

¹¹ Scottish Parliament Finance Committee, *Official Report*, 10 June 2008, Col 613

¹² Scottish Parliament Finance Committee. *Official Report*, 10 June 2008 Col 609

¹³ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Cols 611-612

¹⁴ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Col 616

¹⁵ Scottish Parliament Finance Committee. 3rd Report, 2007 (Session 2), *Legacy Paper*, SP787

Available online at:

<http://www.scottish.parliament.uk/business/committees/finance/reports-07/fir07-03.htm>

¹⁶ Scottish Parliament Finance Committee. *Official Report*, 24 June 2008, Col 659

¹⁷ Scottish Parliament Finance Committee. *Official Report*, 17 June 2008, Col 635

¹⁸ Scottish Parliament Finance Committee. *Official Report*, 10 June 2008, Col 622

¹⁹ Scottish Parliament, Finance Committee. *Official Report*, 10 June 2008, Col 619

²⁰ Scottish Parliament Finance Committee. *Official Report*, 17 June 2008, Col 638

²¹ Correspondence from the Cabinet Secretary for Finance and Sustainable Growth