The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Proposal for a Review of Executive Management of Public Finances**: The Committee will consider a paper from the budget adviser.

2. **Items in private**: The Committee will decide whether to take its draft report on the Financial Memorandum of the Scottish Schools (Parental Involvement) Bill and consideration of its future work programme in private at its next meeting.

3. **Cross-cutting Inquiry into Deprivation (in private)**: The Committee will consider issues arising from evidence received for its cross-cutting inquiry into deprivation.


Susan Duffy
Clerk to the Committee
Room T3.60
Extn 85215
The papers for this meeting are:

**Agenda Item 1**

Paper by the budget adviser

**Agenda Item 3**

PRIVATE PAPER

**Agenda Item 4**

PRIVATE PAPER
Finance Committee

29th Meeting 2005, 6 December 2005

Spending Review 2007
Proposal for a Review of Executive Management of the Public Finances

Introduction
1. The Committee agreed at its meeting on 1 November 2005 that I should undertake a review of the Executive’s management of public finances. This paper gives more detail on the proposed project.

Proposal
2. The Scottish Executive has adopted five drivers of economic growth based on the Treasury’s analysis of productivity. Four of these, basic education and skills, research and development and innovation, entrepreneurial dynamism and the electronic and physical infrastructure, will be considered in the economic impact research which the Committee has agreed to commission.

3. The fifth driver, managing public sector resources more effectively, is the focus of the proposal. The Framework for Economic Development in Scotland (FEDS) acknowledges that its own expenditure decisions have both direct and indirect economic impact and therefore the effectiveness and efficiency with which these are taken can affect economic performance.

4. The Scottish Budget is a key document for parliamentary scrutiny and authorisation of Executive spending plans and provides a basis for monitoring the effectiveness of expenditure in meeting the Executive’s policy and financial objectives. The budget is structured around a series of departmental programmes within portfolios, with a set of objectives and targets for each Spending Review cycle and also a statement of how these plans contribute to the three crosscutting themes of growing the economy, closing the opportunity gap and promoting sustainable development, which are recorded as interdependent objectives.

5. The Committee has been monitoring the extent to which spending decisions are consistent with the budget strategy and has expressed concern that direct spending on economic growth has not been treated as a priority, whilst acknowledging that some support programmes, such as higher and further education, have been.

6. The FEDS vision for economic development is to ‘encourage and stimulate economic growth, to tackle poverty and disadvantage and to improve and sustain our environment’. There is an emphasis on ‘mainstreaming’ these objectives in departmental spending
programmes, which means in the appraisal of spending proposals it must be demonstrated that such proposals are contributing to the achievement of the three cross-cutting themes. This process of appraisal, however, has not had systematic consideration by the Committee, as most appraisal work occurs outwith the budget process.

7. FEDS places great emphasis on the appraisal and effectiveness of expenditure. It states that the Executive evaluates all new spending commitments for their economic, social and environmental impact and for their value-for-money. Pre-expenditure assessments consider the aims and objectives of new proposals, the options for addressing the objectives, the evidence base that supports the proposals, their financial impact and the plans for monitoring and evaluating progress.

8. Pre-expenditure assessments, therefore, are a key instrument for appraising value-for-money, which merits serious examination by the Committee.

9. A second dimension of financial appraisal is the production of Best Value Reviews. Last year, the Committee noted the target set by the Administration Department to complete a rolling programme of Best Value Reviews by 2006. As such studies carried out by local authorities are required to be published in the public domain, the Committee took the view that so too should the Executive’s reports. In its Stage 1 report it observed that, “it is imperative that these are subject to parliamentary scrutiny” and recommended that all Best Value Reviews should be reported to parliament (para 82). The Executive undertook to consider this recommendation further, but no subsequent response has been made.

10. A third dimension is the work of the recently formed Independent Budget Review Group (BRG). The Committee’s review of spending decisions in the Scottish budget since 1999 (FI/S2/05/19/1), recommended a rigorous and systematic base budget review exercise prior to the next Spending Review. The establishment of BRG goes part of the way to meeting this recommendation, although local government funding is excluded from the review and the timetable given to the BRG is too short for a rigorous reappraisal of expenditure.

11. Discussions are ongoing with the BRG over how scrutiny of their output will be facilitated. The Committee may wish to consider both the BRG’s findings and recommendations and the benefit of such external input to the budget process.

12. The fourth element to this review would be further scrutiny of the Efficient Government Initiative. FEDS states that: “the Executive is continually seeking to increase the effectiveness with which resources are used. A key aspect is the adoption of more innovative and effective delivery mechanisms. The Efficient Government Initiative – which is expected to run for many years – is addressing the potential for a
substantive realignment of resources in the public sector.” (FEDS, 2004 p13)

13. The Committee has already expressed a number of concerns regarding the management and presentation of this initiative in its Stage 2 report last year. These four aspects of financial management would provide a solid piece of work for the Committee on the use of appraisal techniques in the management of the public finances. The postponement of the Spending Review until 2007 provides an opportunity to undertake this review of financial management to inform its deliberations on budget priorities for that exercise, but also to leave an important insight into the appraisal process for its successor after May 2007.

**Timetable**

14. A proposed timetable for this research and associated evidence is shown below:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Timeframe</th>
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<tbody>
<tr>
<td>Begin Research (including undertaking interviews with Scottish Executive officials involved in Best Value Review and Pre-Expenditure assessment)</td>
<td>February/March 2006</td>
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<tr>
<td>Present interim report to Committee</td>
<td>Easter 2006</td>
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<tr>
<td>Oral evidence from Executive officials based on issues/questions in interim report</td>
<td>April/May 2006</td>
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<tr>
<td>Final report</td>
<td>By summer recess 2006</td>
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**Recommendation**

15. The Committee is invited to consider the proposal and timetable outlined in this paper.

**Professor Arthur Midwinter**

**Budget Adviser**