FINANCE COMMITTEE

AGENDA

2nd Meeting, 2002 (Session 1)

Tuesday 29 January 2002

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

1. **Items in Private**: The Committee will consider whether to take agenda items 2 and 7 in private.

2. **Budget (Scotland) (No.3) Bill**: The Committee will receive a briefing from its adviser.

   *Not before 10.30 am*

3. **Scotland’s Budget Documents 2002/03**: The Committee will take evidence from—

   Andy Kerr MSP, Minister for Finance and Public Services;

   David Palmer, Scottish Executive Finance Division.

4. **Budget (Scotland) (No. 3) Bill**: The Committee will consider the Budget (Scotland) (No. 3) Bill at Stage 2.

5. **Financial Scrutiny**: The Committee will consider a paper on a possible review of financial scrutiny arrangements.

6. **Future Inquiries**: The Convener will lead a discussion on possible future inquiries.

7. **PFI/PPP Inquiry**: The Committee will consider a further paper on possible case studies.

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The papers for this meeting are:

**Agenda item 2**

Paper by Professor Brian Ashcroft, budget adviser to the Committee

**PRIVATE PAPER**

**Agenda item 5**

Paper by the Clerk

**FI/02/2/1**

**Agenda item 7**

Paper by the Clerk

**PRIVATE PAPER**

*(to follow)*
Review of Financial Scrutiny

Paper by the Clerk

Purpose

At its meeting on 15 January, the Committee was in general agreement that the current arrangements for financial scrutiny in the Scottish Parliament should be reviewed. It was agreed that the Convener and the Clerk would produce an issues paper for discussion at this meeting with a view to agreeing on how to take the matter forward.

Current research

As the Committee is aware, there are a number of recent or ongoing developments to bear in mind when discussing the content of the review—

1. The research commissioned by the Committee from Arthur Midwinter entitled “The Real Scope for Change: Appraising the extent to which the Parliament can suggest changes to programme expenditure”. The intention of which is to assist Parliamentary Committees in understanding the budget with particular emphasis on identifying the scope for change within the budget.

2. Arthur Midwinter’s remit as Standing Adviser to the Committee. The remit agreed by the Committee includes taking forward proposals to make changes in the budget process to improve scrutiny and allow meaningful input by the Parliament in the process of budget setting. It also includes undertaking project work relating to the process as agreed by the Finance Committee.

3. Norman Flynn. The Committee has commissioned external research into Moving to Outcome Budgeting. The terms of reference for his research are: Stage 1 – research the feasibility of outcome budgeting for the Scottish budget. Stage 2 – to develop practical proposals to assist parliamentary Committees in measuring outcomes in the Scottish budget. Norman has now reported at Stage 1 of his research and is due to report shortly on stage 2. He has looked at a sample of other countries including federal governments within those countries and discusses the current use of targets and outcomes in Scotland. His report includes the conclusion that the Parliament should push for the setting of outcome targets in the resource allocation process and those targets should be the main measure of Parliamentary scrutiny of the budget.

4. Finance Committee. The Finance Committee did some work in 2000 reviewing the budget process. The Committee split into two groups, the first of which looked at stylistic and presentational aspects of the budget documentation and the second of which examined the use of aims and objectives. That group made a series of recommendations most of which the Executive has taken account of when producing subsequent budget documents. Other recommendations, such as calling for expenditure on health and local government to be made more transparent are issues that the Finance Committee is still pursuing. The second
group’s conclusions were more long-term and have been taken forward by way of the external research commissioned by the Committee detailed above. The correspondence following the deliberations of both groups is attached as Annex A.

5. Irvine Lapsley. In addition to the above, contact has been made with Irvine Lapsley, Professor of Accountancy at the University of Edinburgh. Professor Lapsley advised the Committee during its inquiry into Resource Accounting and Budgeting last year. He is currently involved in government research entitled “Devolution and Constitutional Change Research Programme” which seeks to compare the role of information in democratic accountability in the UK devolved bodies with those in Norway and New Zealand. The study aims to examine annual financial budgeting and performance management and performance audit processes. The research is programmed to move through a variety of stages with the aim of final reporting in 2004. Professor Lapsley has indicated that he is happy to co-operate with the Committee if it feels his research could be of use. He expects seminars to be arranged at various points in the programme and will ensure that invitations are issued to the Committee.

Proposal for Review

As mentioned, the consensus on 15 January was that the work of the Financial Issues Advisory Group in proposing a framework for financial scrutiny in Scotland should be reviewed.

The Convener suggested that the Committee could review the application of the FIAG recommendations and the legislative provisions in the Public Finance and Accountability (Scotland) Act as a parallel exercise to that which is being undertaken by the Procedures Committee in relation to the report of the Consultative Steering Group. The suggestion was that the Committee examines whether FIAG’s recommendations have been implemented and whether there is scope for modifying procedures having regard to those recommendations. Various suggestions as to what this could involve were made, including:

- a comparative study of models for financial scrutiny elsewhere;
- the effectiveness and aims of the process;
- consideration of a more strategic/longer term approach to tie in with UK spending reviews;
- scrutiny of in-year expenditure, annual expenditure and three year programme expenditure;
- the level of transparency in the process; whether it is sufficient or could be improved;
- the role of the Finance Committee in developing budgetary suggestions and alternatives;
- enabling and empowering committees in taking alternative views in the budget setting process;
Subject committee Involvement

In addition to the above, members also suggested that the clerks review the frustrations that have been expressed by subject committees in scrutinising departmental budgets. Reports by subject committees at Stages 1 and 2 for each of the last two years have been reviewed and a detailed account of the comments made in relation to the process is available separately from the Clerks. The recurring frustrations can be summarised as:

- lack of ability to judge proposed spending against targets
- weak, badly focussed or arbitrary targets
- lack of time to conduct proper scrutiny
- lack of transparency in setting budgets and objectives
- committees badly equipped to conduct proper scrutiny
- lack of information on level 3 figures
- unclear or non-existent detail on the link between objectives and indicators
- changes from previous documents to be highlighted
- lack of transparency in the origin and application of EYF

As the Finance Committee has a general co-ordinating role in relation to the budget process, it is suggested that the Committee agree to work with two subject committees during this year’s process to see if their concerns can be met. If this is agreed, members are asked to decide which committees should be involved. It is suggested that there would be benefit in working with the Health and Community Care Committee as it has been the most vocal in stating its concerns. As that committee scrutinises a departmental budget which is largely spent by devolved bodies, the Committee may wish to consider working with a committee such as the Transport and the Environment Committee which scrutinises a larger proportion of direct expenditure.

Decision

The Committee is asked to agree to undertake a review of current financial scrutiny arrangements with particular regard to FIAG. In doing so, members are asked to bear in mind the ongoing work detailed above.

The Clerks will liaise with the Convener and SPICe and will bring forward a draft remit and timetable for consideration at a future Committee meeting.

David McGill
January 2002