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

1. **Declaration of Interest:** The new Committee member will be invited to make a declaration of any interest.

2. **Items in Private:** The Committee will consider whether to take agenda items 3 and 7 in private.

3. **The Budget (Scotland) Act (Amendment) Order (SSI 2002/draft):** The Committee will consider its lines of questioning for agenda item 4.

   *Not before 10.30 am*

4. **The Budget (Scotland) Act (Amendment) Order (SSI 2002/draft):** The Committee will debate motion S1M-2735 in the name of Andy Kerr MSP, Minister for Finance and Public Services, to approve the draft order.

5. **2003/04 Budget Process:** The Committee will consider draft guidance for issue to subject committees in relation to the 2003/04 budget process.

6. **2003/04 Budget Process:** The Committee will consider possible cross-cutting reviews as part of the 2003/04 budget process.

7. **Future Inquiries:** The Committee will consider an options paper for future inquiries.

David McGill
Acting Clerk to the Committee
Room 2.1, Committee Chambers
Tel. 0131 348 5215
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The papers for this meeting are:

**Agenda item 3**

Paper by Professor Midwinter  
PRIVATE PAPER

**Agenda item 4**

Motion S1M-2735 in the name of Andy Kerr, MSP

The Budget (Scotland) Act (Amendment) Order (SSI 2002/draft)  
FI/02/4/1

Scotland’s Budget Documents: Spring Budget Revisions

**Agenda item 5**

Draft Guidance by Professor Midwinter  
FI/02/4/2

**Agenda item 6**

Paper by Professor Midwinter  
FI/02/4/3

**Agenda item 7**

Paper by SPICe  
PRIVATE PAPER
Budget Process 2003-04

Stage 1 Guidance

1. *Introduction*
   At the first stage of the annual budget process, the terms of which have been approved by the Parliament, the subject committees are asked to consider and report on the future spending priorities of the relevant Scottish Executive department. The Annual Expenditure Report (AER) sets out the provisional expenditure plans for 2003-4. Subject committees should also bear in mind that new resources may emerge from the UK Spending Review this summer.

2. The Executive has agreed to include a number of new features in the AER after discussing with the Finance Committee its commissioned report by Arthur Midwinter and Jim Stevens, *The Real Scope for Change*. These are:
   1. an assessment for each portfolio of the scale of *unallocated resources* available for next year;
   2. an assessment of the extent of *committed capital expenditure* in the new budget, so that the amount available for new allocation is clear.
   3. A summary of the *outputs* expected from its new spending proposals.

3. In addition the Finance Committee recently received a report on outcome budgeting by Norman Flynn. This showed clearly that the development of *outcome measurement* is a long-term exercise. However, the Committee is of the view that where outcome measures exist and are relevant to the budget process, these should be included in the AER (Indeed, some already are).
4. In this year’s budget exercise the Finance Committee recommends to subject committees that they focus more closely on budget choices to be made as well as on processes and information (e.g. performance targets). Last year, no recommendations for shifting resources were received, and this may be taken to infer that the Parliament is content with the pattern of allocations proposed by the Executive. To assist this, the Executive has agreed to cost any spending options that Committees wish to recommend at Stage 1, and have these considered by Cabinet in the summer. Clearly, this is a valuable opportunity to impact on expenditure decisions.

5. With these developments in mind, therefore, the Finance Committee would welcome responses from the subject committees on the undernoted key questions:

(a) Is the Committee satisfied that any recommendations it made on outstanding issues from last year have been addressed in the budget proposals (where appropriate)?

(b) Does the Committee feel the departmental spending proposals are consistent with the Executive’s Strategy and Objectives?

(c) Does the Committee recommend any change in the balance of spending between the budget heads?

(d) In the light of the forthcoming Spending Review, is there an alternative budget option or priority amongst existing programmes which the Committee would propose to the Executive?

(e) Does the AER provide evidence of performance in meeting targets or of progress towards long-term outcomes? Can the Committee suggest alternative measures to strengthen this aspect of scrutiny?

(f) From which groups/individuals did the Committee take evidence in the budget, and what concerns were expressed?

(g) Is there any other pressing budgetary issue which the Committee wishes to draw to the attention of the Finance Committee?
Cross-Cutting Expenditure Reviews

Report to the Finance Committee
Professor Arthur Midwinter

1. One of the limitations of conventional budgetary systems is that resources are allocated on a functional basis. This is fine for financial control, but less helpful for wider considerations of expenditure needs of specific client groups or geographic areas as a whole. Arguments for resources tend to be made from a particular service perspective, and issues which cut across departmental boundaries can be missed.

2. Secondly, the budget process is concerned with allocations in the short term, and is not a particularly appropriate mechanism for in-depth evaluation of the performance of particular spending programmes. A long-term view requires more analysis and more time to consider matters than is possible in the budgetary process.

3. Thirdly, despite the political commitment to ‘joined-up’ government, corporate working is difficult to achieve, and can often result in bureaucratic compromise rather than tackling overall funding issues.

4. It was with these difficulties in mind that I suggested the introduction of cross-cutting expenditure reviews in my report to the committee, *The Real Scope for Change*. This would allow the Finance Committee to take a longer look at resource allocation issues, from a broader perspective, and consider:

   • the *level* of spending on relevant programmes
   • the *balance* of spending between such programmes relative to need
   • the *scope for rationalisation* of the spending programmes, with a view to improving value-for-money or better meeting needs
   • the *continued relevance* of existing spending programmes to community needs; and
• the extent of unmet need in existing programmes and whether new programmes are necessary.

5. Cross-cutting expenditure reviews would take six to nine months to complete, and would be reported annually in February/March, so the findings can be considered by Committees and the Executive in the new budget process. These reviews should both undertake evaluation research and receive evidence from relevant interests.

6. I would recommend that we establish a Review Group of relevant specialists, chaired by myself, but utilising an adviser or researcher in the field, and other expertise such as professional associations or Audit Scotland staff with contributions to make. The research and report would be completed by the Adviser/Researcher appointed for the task. We should perhaps have two members of the Committee on the Working Group to provide a political sounding board.

Possible Topics

7. A corporate approach would focus on issues which transcend departmental boundaries and involve a network of delivery agencies, such as specific client groups, or types of geographic area, or topics such as information technology. The Committee should undertake one such study per annum, to devote the necessary time for a robust review. For example, a review of spending on services for young people would cut across the criminal justice, education, and children, enterprise and lifelong learning, health, housing, local government, sport and leisure budgets. A review of spending on services for older people would also involve examination of a number of budgets.

8. Alternatively, a review of spending in rural areas would likewise cover education and children, enterprise and lifelong learning, health, housing local government, rural affairs etc.
9. A third option would be to review spending on drug-related problems which would likewise consider the relevant elements of the justice, education and children, health and social justice programmes.

10. The Committee views on the approach suggested, and an agreed topic for investigation, are requested.

Professor Arthur Midwinter
15 February 2002.