FINANCE COMMITTEE

AGENDA

6th Meeting, 2002 (Session 1)

Tuesday 26 March 2002

The Committee will meet at 10.30 am in Committee Room 1 to consider the following agenda items:

1. **Financial Scrutiny Review:** The Committee will consider a scoping paper on its review of financial scrutiny arrangements.

2. **2003/04 Budget Process:** The Committee will consider a paper on cross-cutting reviews as part of the 2003/04 budget process.

3. **2003/04 Budget Process:** The Committee will consider an options paper for meeting outwith Edinburgh at stage 1 of the 2003/04 budget process.

David McGill
Acting Clerk to the Committee
Room 2.1, Committee Chambers
Tel. 0131 348 5215
Email: david.mcgill@scottish.parliament.uk
The papers for this meeting are:

**Agenda item 1**
Scoping paper on financial scrutiny arrangements
Additional Paper by SPICe: External Research proposal FI/02/6/1

**Agenda item 2**
Paper by the Clerk FI/02/6/2

**Agenda item 3**
Paper by the Clerk FI/02/6/3
FINANCE COMMITTEE

Review of Financial Scrutiny:

Scoping Paper

Introduction

1. The Finance Committee agreed at its meeting of 29 January 2002 to undertake a review of the financial scrutiny arrangements relating to the Scottish Executive’s budget process and methods of financial planning.

Background

2. The Scottish budget process and the Parliament’s involvement with it were determined on the basis of the recommendations of the Financial Issues Advisory Group (“FIAG”). FIAG was set up in February 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be ‘open, accessible and accountable to the people of Scotland’. The Public Finance and Accountability (Scotland) Act 2000 enshrined these principles in legislation. The expectation was that subject committees would have an active role in making recommendations on spending priorities and act as a channel for the views of the Scottish electorate. The Parliament has the opportunity to comment on the Executive’s spending plans at several points during the year prior to the annual budget being agreed. This is the basis of the three stage process, which begins on 30 March with the publication by the Executive of the Annual Expenditure Report.

3. This system is now in its third year of operation. It should be borne in mind that it is an innovative one and one that provides a far greater degree of scrutiny than that which pertains in either Westminster or elsewhere in the United Kingdom. FIAG set out the framework and the purpose of this review is to build on the strong position FIAG recommended. The aim is to identify areas within the current arrangements that could be streamlined in order to improve the process. The paper aims to examine whether FIAG’s recommendations have been implemented and whether there is scope for modifying procedures with a view to alleviating frustrations and ensuring that the Parliament fulfils its role in relation to proper scrutiny of the Scottish budget. In this regard, it is worth recalling that Jack McConnell, as Minister for Finance and Local Government stated in September 1999 that his intention in introducing the legislative aspect of the current arrangements were:

- to create a world class system of financial management for the Scottish Parliament;
- to enable the Scottish Parliament to make informed, transparent decisions on expenditure and hold to account those who spend public money;
• to meet the requirements of the Scotland Act for Scottish legislation on financial issues.

Context

4. The Finance Committee took steps last year to appoint a Standing Adviser to the Committee on the budget process and Professor Arthur Midwinter formally took up the post in February this year. The purpose of this appointment was primarily to ensure that the subject committees of the Parliament are better equipped to scrutinise relevant departmental budgets and are able to make suggestions for alternative allocations. That work is underway now and is already delivering positive benefits. We believe that these will become even more apparent as we move through this year’s budget cycle.

5. Some of the problems with the operation of the current process were addressed by research undertaken for the Finance Committee by Arthur Midwinter and Jim Stevens of Strathclyde University. Some of their recommendations have been endorsed by Ministers (i.e. identification of uncommitted monies in the new budget; an assessment of the capital commitments from the previous year; and the presentation of the Executive’s spending proposals in output terms). The Finance Committee is now moving forward with these to strengthen the scrutiny process and widen the margins of choice in the budget process.

6. In the longer-term, the Committee has instigated an investigation into Outcome Budgeting. External research was procured last year and the results of that research will be published shortly. It is the Committee’s intention to consult on the basis of the researcher’s findings and to consider the results of that consultation in due course.

7. Finally, the Committee has recently agreed that it will examine cross-cutting issues as part of its scrutiny of the budget. It decided to take as its first topics for such reviews Children in Poverty and the Voluntary Sector with the focus on regeneration issues. These reviews are likely to start around late April and will focus on budgeting and funding issues relating to programmes across the range of Executive departments which contribute towards the general policy area, and how and whether those programmes are delivering effective outputs and outcomes.

Scrutiny review

8. This review is designed to dovetail with the developments outlined above. The intention is to build on the work of the committee and its adviser in making the existing structure work better by considering the streamlining of the budgetary process for future years. Any structural changes will be considered in the context of projected moves towards outcome budgeting in the long-term.

9. In order to take forward the scrutiny review, the Committee established a small working group to undertake a scoping exercise. The group consisted of the
Convener, clerks and SPICe research. This paper is the result of that initial investigation and is divided into two main sections:

1. **FIAG AND PFA**
10. An examination of the main recommendations in the FIAG report and the relevant provisions in the Public Finance and Accountability (Scotland) Act 2000, to see how these compare to practice.

2. **THE EXPERTS' PERSPECTIVE**
11. Collating and summarising the views of budgetary and public finance experts (some of whom were members of FIAG).

12. At the end of Section 2, there is a summary of the main issues arising out of the paper. The Committee's agreement is sought on how to take matters forward.

**Practice elsewhere**

13. In addition to the above, discussions were held with representatives of local authorities and the private sector to review budget setting and scrutiny arrangements in those organisations, and details of those discussions are contained in appendix A and appendix B respectively. The main points that arose were:

**Local Government**
- local government appears good at managing budgets and tracking variance
- comparative performance review procedures are strong
- in some authorities there appears to be barriers to innovative thinking in terms of strategic planning and policy development and implementation
- local government has been innovative in civic participation
- Best Value considerations are strong in relation to managing service provision
- performance measurement is almost exclusively against external indicators and expressed in relation to other authorities with very little output or outcome measurement
- local government has useful experience of mainstreaming policy initiatives which the Executive could usefully draw upon.

**Private Sector**
The company we visited in the case study has the following characteristics in relation to budget-setting and financial control:

- A budget process that is continually linked to a 10-year strategic plan
- Rigorous reporting mechanisms
- Well-defined, measurable objectives
- Very clear lines of authority and responsibility
• Works in a competitive environment, with pressures for continual improvement

In terms of applying lessons to the public sector, the key questions might be:

• To what extent are allocative decisions linked to long-term plans?

• Are the lines of accountability as clear between ministers and civil servants, or between central government and delivery agents (such as health boards, local authorities and NDPBs)? Such clearly defined accountability may not be appropriate in the public sector, but what are the constraints?

• What incentives are there for continual improvement in central government?

• What are the penalties for non-achievement in public service?

FURTHER ACTION

14. Should the Committee decide to proceed with the review on the basis of this scoping exercise, it may wish to access the external research budget to examine models in other countries and territories. A proposal is attached with this paper for Members’ consideration.

15. It may also wish to consider establishing a reporter group which could consult with relevant public finance experts, Parliament officials and Scottish Executive officials, in taking the issues identified in this paper forward. This could be set up at a future date to facilitate the development of relevant conclusions.
Financial Issues Advisory Group and the Public Finance and Accountability (Scotland) Act 2000

16. FIAG considered a wide range of public finance issues and made recommendations on:

- terminology
- budgetary procedures
- accounting arrangements
- public accountability
- audit arrangements (outwith the scope of this paper)

Have the objectives been realised in practice?

17. It is clear that most of the recommendations contained within FIAG’s report have been adopted by the Scottish Parliament and Executive, either by informal arrangements such as written agreements, Standing Orders, or in the Public Finance and Accountability (Scotland) Act.

18. We believe that there is a widely-held view that the FIAG recommendations were innovative and have led to the implementation of a budget process and system of scrutiny that are a great advance on those of the pre-devolutionary environment. The purpose of this exercise is to identify improvements that will build on this progress.

19. To that end, this section of the paper concentrates mainly on those areas where FIAG recommendations have not yet been implemented, or where implementation has been more problematic than envisaged.

Terminology

20. While recognising that finance issues may not lend themselves to simple vocabulary, FIAG recommended that the Parliament use plain English wherever possible. This was intended to make it easier for MSPs and members of the public without a financial background to understand the budget and other financial issues. An annex to the report lists preferred terminology (interestingly one of which is 'carry forward', as opposed to the Westminster 'End Year Flexibility', which has become the commonly used term in the Scottish Parliament).

- There is no doubt that the Parliament has taken time to develop an understanding of the terminology related to budgeting and public finance matters. A frequently voiced criticism of the first year of the process was that documentation was not presented in simple terms. To address this concern, the Finance Committee received advice from the Plain English Society and comments were fed back to the Executive’s Finance Department.
• Clearly, not every Member will develop an expertise in this field. However, it is important that each is given an opportunity to do so if they wish. Mindful of this, FIAG recommended that MSPs be provided with a ‘financial briefing package’ to help them. This has not been provided, and the Finance Committee review may wish to consider the best way of taking this forward.

Budgetary procedures

21. The aim was to create a process that would be less dominated by the Executive, as under the Westminster model, and enable the people of Scotland and their elected representatives to have more of a say in setting the priorities for expenditure. The main recommendation was designed to provide a timetable to enable ‘constructive dialogue’ between the Parliament and the Executive. To this end, the three-stage process was devised:

Stage 1: Discussion of strategic priorities

Stage 2: Discussion on detailed proposals

Stage 3: Legislation

22. Clearly, the main recommendation of a three-stage process was implemented, as were the FIAG recommendations on committee involvement. Some elements (e.g. interim spending approval where the Parliament has not approved the Budget, or arrangements in relation to the tax-varying power) have not, as yet, been utilised. Other important issues in this regard are as follows:

23. In practice, Stage One has not concentrated on strategic priorities. Instead, committees have focused on detail, in much the same way as at Stage 2. It may perhaps only be possible for committees to examine selected areas of their budget for strategic review each year.

• The recommendation that spending proposals are accompanied by a narrative that explains the objectives of the proposed outputs and expected outcomes (3.36) has not been consistently applied. For some departments, committees have experienced difficulty in determining output information and policy intentions from the budget documentation. There is also confusion between ‘outputs’ and ‘outcomes’. This is problematic because Stage 1 is intended to be the opportunity for committees to examine expenditure in the light of the Executive’s stated priorities.

• Concern has been expressed by several committees at a lack of clear and consistent information relating to spending decisions taken by the budgets of arms-length bodies funded by the Executive, e.g. local authorities, health boards and NDPBs. There is no recommendation in FIAG that specifically addresses this issue.

• Budget transfers. FIAG recognised that the Executive should be allowed “reasonable discretion to transfer funds, so long as Parliament was regularly
informed”. It argued that these transfers should be between sections, but not between Departmental Budgets (because this would undermine the broad priorities agreed by the Parliament). It should be noted that FIAG recommended that the system for budget transfers should be reviewed in 2002 (for 2003-04).

Accounting arrangements

24. FIAG made technical recommendations relating to accounting, e.g. the adoption of resource accounting and budgeting (RAB).

- The Group also made recommendations on performance reporting, with annual reports on overall budget strategy, programme objectives, outturn of previous years, plans for the year ahead as approved by the Parliament and provisional plans for the two subsequent years. FIAG recommended that separate volumes should be issued for each of the Executive’s spending departments. It also stated that an interim report should be provided in May containing performance management information in relation to the financial year just ended and suggested that the AER could include this interim information. To date, the AER has not provided this information in a systematic way.

Accountability

25. FIAG was concerned to ensure that the system of accountability put in place should be seen as a way of promoting a free flow of information between the Parliament and the Executive.

- Recommendations that different departments within the Executive each has an “accounting officer” have been adopted. In practice, this has led to some confusion at Stage 3, where the budget documents are presented on a departmental basis, whereas Stage 1 and 2 documentation is presented at portfolio level. However, Executive officials have agreed to examine how this might be addressed.

- The FIAG recommendations in this section do not emphasise the importance of ministerial accountability.

Other issues

26. Resource consequences of policy legislation:

- As recommended, all legislation must be accompanied by a financial memorandum that sets out the financial implications of legislation. Concerns have been raised by the Finance Committee that some memoranda have not been fit for the purpose.
27. Temporary spending power of the Executive:

- FIAG recommended the establishment of a budgeted reserve and that arrangements should be made for a contingencies fund. The former has been established, but the latter has not and there has been no call on such a fund during the lifetime of the Parliament.

28. Expenditure by SPCB:

- FIAG’s recommendations that the Parliament appoints the Chief Executive to be its accountable officer in respect of SPCB expenditure has been implemented. The Parliament has entrusted the Finance Committee with the responsibility to scrutinise the budget of the Corporate Body.

29. Administrative expenditure:

- As FIAG advised, a single administrative budget for all core Departments expenditure has been established. However, its recommendation that the administration costs of each department also be highlighted for information has not been provided on a consistent basis.

Public Finance and Accountability (Scotland) Act 2000

Background

30. The Public Finance and Accountability (Scotland) Act 2000 (“the Act”) built on the legislative groundwork laid by the Scotland Act 1998 and was, excepting emergency legislation, the first Bill passed by the Scottish Parliament. It enshrined in statute many of the FIAG recommendations. Part 1 of the Act deals with public resources and finances while Part 2 concentrates on accountability and audit. This note deals only with Part 1.

Public Resources and Finances

31. Part 1 sets out statutory requirements in relation to the use of resources, the Scottish Consolidated Fund and other financial provisions.

32. The use of resources by the Scottish Administration and by other bodies whose expenditure is payable from the SCF is confined to the Budget Act then in force. All such expenditure is therefore subject to authorisation by the Parliament. Section 3 of the Act contains emergency provisions which ensure that, in the event that, for whatever reason, a Budget Act is not enacted at the start of the year, funding from the SCF continues to be provided. Where Scottish Ministers use these provisions, the Act obliges them to lay a report of the circumstances of the authorisation and the reasons why it was felt necessary. It has not been necessary to use these emergency provisions to date.

33. The Act also stipulates rules for payments out of the SCF under section 65 of the Scotland Act. Such payments must be kept within the overall amount specified in the relevant Budget Act and must be so authorised.
**Issues**

34. The setting of budgets for more than one year at a time was considered by FIAG. The decision to seek implementation of the current system stemmed from a desire to ensure adequate parliamentary scrutiny and to dovetail with UK arrangements. The Committee may wish to consider an examination of whether there is benefit in setting budgets for a longer period. The disadvantages mentioned could be weighed against the longer-term certainty gained and the release from the annual “treadmill” that has concerned Members previously.

35. FIAG also recommended the use of primary legislation in relation to revisions to the Budget Act then in force. By the time of the introduction of the PFA Act, this was felt to be too unwieldy and too demanding on Parliamentary time. The affirmative procedure attaching to the current system of revisions by secondary legislation means that revisions cannot come into force unless with Parliamentary approval and also that Ministers are required to appear before Committees. Members may wish to confirm that they are content with this procedure as opposed to primary legislation.
Section 2

The Experts’ Perspective

36. The group discussed the budget process and issues of financial scrutiny with a number of experts in the field, some of whom were members of FIAG. There were divergent views about the process as it has operated thus far. One commentator, a member of FIAG, argued that the system has been in operation for a relatively short time (two years) and therefore "it is not surprising that there has been no major progress made yet in terms of making recommendations". In his view, the system needs to “bed down” and MSPs become more comfortable with the process. This section highlights some of the main issues raised during these discussions.

The Budget Process

37. The issue that arose in relation to the budget process were:

- Committees should take a more strategic view at Stage 1.
- Lack of consistent output measures means that it is difficult to determine the results of money spent.
- Will the budget process work at a time of fiscal restraint, when decisions are focused not on allocation of additional monies, but on prioritising reductions in spending areas. There has been an unusual period of growth in public spending. It is important that the Parliament develops ideas and strategies that will enable committees to undertake their role in times of less expansive growth or actual cuts.
- The structure may mitigate against greater committee involvement. In local government, the model is to have service committees regularly debating budgetary issues. This has not been the practice in the Parliament.
- As much of government spending is mandatory or incremental, the scope for variation is necessarily limited.
- The Finance Committee is ideally placed to look at cross-cutting areas, as opposed to subject committees which must, by definition, concentrate on specific areas. The Committee has already agreed to begin work on these. Audit Scotland might also assist with the cross-cutting reviews.
- It is important to define the roles of the Finance and Audit Committees. These committees, and the subject committees are different parts of the same spectrum.
Financial control

38. In terms of the current financial control arrangements, the main issues identified by the experts were:

- It is not clear where in the Executive financial control rests. This may need to be strengthened.
- In the view of a number of commentators, more effective mechanisms of financial planning and control are essential.

Issues for discussion: Where do we go from here?

The process

39. The FIAG proposals were innovative and have been for the most part adopted. The Finance Committee has already taken a number of steps to ensure that the aims of FIAG are achieved (e.g. the Midwinter recommendations). In the medium-term, what more can be done to streamline the process and to make it even more effective?

Allocative mechanisms

40. How are spending decisions taken within the Executive? What is the process? How are issues prioritised and costed? How are these issues balanced against political priorities? Who takes the final decisions?

Transparency

41. Where has the money come from in the budget; where is it being allocated and for what purpose?

Bidding process

42. To what extent is the budget allocated according to assessed needs, and to what extent is it a response to political priorities and crisis management? Do bids distort the budget process as intended by FIAG?

Best Value

43. What role does best value play in assessing spending priorities? Should such tests be built into any bid for new money?

Empowerment

44. How can we empower committees, including the Finance Committee, to make well argued recommendations based on evidence and debate? How can we empower the wider community in Scotland in discussions about the Scottish Executive budget?
Output/Outcomes

45. To what extent is allocations based on systematic assessment of how spending will deliver measurable outputs and how can we move towards a system where spending is linked to identified and quantifiable outcomes?

Fragmentation of funding

46. Unlike Scottish Power, the public sector in Scotland is an amorphous collection of different service provision, with a consequent loss in a sense of common purpose. This is inevitable but creates problems in terms of delivering priorities. To what extent is it possible to allocate monies to major spending priorities directly, e.g. community care (rather than to health boards and local authorities).

Cross-cutting reviews

47. The Committee will be undertaking a series of cross-cutting reviews on an annual basis. What are the specific elements we should be seeking to draw out?

Summary

48. As the above highlights, there are many issues that the Committee could focus on should it decide to take forward its review of financial scrutiny arrangements. The Committee is invited to comment on the issues raised and to agree on how to take matters forward.

Des McNulty, Convener
Murray McVicar, SPICe
David McGill, Clerk
Terry Shevlin, Senior Assistant Clerk
20 March 2002
Practice in Local Authorities

Introduction

It was agreed that, as part of the scoping exercise, an examination would be made of the budget process and financial scrutiny within a small number of Scottish local authorities.

Initially, a meeting was held with officials from Edinburgh City Council. As the budgetary processes employed in that Council are not representative of Scottish local authorities as a whole, (see below), it was also decided to contact Western Isles Council and Dundee City Council. The following notes are based on discussions with officials from each of the three authorities.

City of Edinburgh Council

Background

The City of Edinburgh Council has recently reorganised its structures making the Council set-up analogous to the Executive/Legislature model common to national government. To that end, it is currently atypical of Scottish local government with, we understand, only three other councils currently adopting the same or similar models.

The Council consists of an Executive, seven scrutiny panels, committees with regulatory and appeals responsibilities, Joint Boards and Local Development Committees. The Executive consists of 13 members appointed annually and its responsibilities include recommending the budget and strategic policy framework to the full Council.

Budget Setting

A three-year budget is set by the Executive, reporting to the Council with the opportunity for input from all parties. Opposition parties may also propose alternative budgets for consideration by the Council.

Consultation

The Council undertakes a formal consultation process on the proposed budget. Part of this exercise involves taking feedback from focus groups. Membership of focus groups is designed to include a gender, class and age mix. Focus groups are designed to improve the level of feedback from the previous system of large scale public meetings. A report on the views expressed in the consultation exercise is published by the Council.

Scrutiny panels

There are 7 Scrutiny Panels which are established on thematic lines, such as children and young people. Panels hold the Executive to account for its performance and scrutinise its activities. There are nine or ten councillors on each panel and there is a meeting of all scrutiny panel chairs every month. Panels have the power to “call
in” decisions of the executive for review. There are established protocols as to whether they can overturn decisions or refer them back to the executive.

Panels have their own work programme and can look at outcomes of best value reviews affecting their services. They can also initiate their own reviews of particular service areas but only 2-3 each year. Having considered the issues, they then make recommendations to the executive.

Resource Management and Audit Scrutiny Panel

The Resource Management and Audit Scrutiny Panel (RMP) reports on financial monitoring to the council monitoring team (which comprises the chief executive and 8 directors) on a monthly basis, showing expenditure and the projected outturn for the entire year. The process starts in “month one”, with a look at potentially volatile items. Scrutiny Panels also report to the executive at month 6 and month 9. The 9 month stage is an opportunity to look at outturn, which influences policy decisions for the following year.

The RMP also meets every 4 months as an audit committee. It considers any report it receives from Audit Scotland and also quarterly reports received from the Council’s internal audit section. Meetings are chaired by a member from an opposition party. Audit Scotland sets out key performance indicators which are audited; there are around 64-68 different monitoring targets from AS. The resultant published information is used to measure performance against other local authorities.

Performance Indicators

Performance information is published at the end of spring. Information is collected on matters such as occupancy of schools - i.e. whether they are under or over occupied. The council also provides information providing an “at a glance view” of how it compares to other local authorities. For example, information is published on refuse uptake. Information goes to the executive by Christmas and to scrutiny panel at a later date. Much of the information is provided in council publications, for example the Council’s “A – Z”, which shows how much of the council tax is collected.

The Council can also carry out its own monitoring on issues it sees as being important. For example it has produced a city plan, which outlines a future vision for Edinburgh. Progress with this plan is monitored by using indicators and benchmarks. Targets for some other indicators come from the Scottish Executive.

Service plans

Departments are expected to produce service plans which include performance levels set for a three year period. Service plans are prepared with the budget, but the relationship between the two is tenuous at best. There is currently no document which states the purpose of the service and setting out the perspective for the next three years. There is also, at present, no report on progress in service plans. The relevant officials are aware of the weaknesses in the current system of measurement of performance levels and are taking steps to improve the relationship between inputs and outputs.
The exception to this lack of reporting is DSOs, which report every 3-4 months. These DSO reports link finance with outputs and performance, and provide a running commentary on the financial health of the organisation.

Other Monitoring

The Executive receives an annual review of expenditure. Members are then informed of proposals whereby directors feel savings can be made and there is a three month engagement process with members on the proposals.

A lot of focus is given to financial monitoring through the year at officer level with the focus being on patterns of under and overspend. There appears to be little time spent looking at the delivery and impact of policies. Officers do meet members every second Tuesday for discussion, and it was represented to us that they wish that they had proper performance indicators to hand for such meetings.

**Dundee City Council and Western Isles Island Council**

Dundee City Council and Western Isles Island Council submitted written material which is available from the Clerk. Their responses can be summarised as follows:

**BUDGET SETTING**

**Dundee City Council**

Capital Budgets are normally prepared covering a 3 year period and updated annually to reflect changes in resources and actual commitments. In 2001 the Scottish Executive issued 3 year capital consents covering the financial years 2001/02, 2002/03 and 2003/04. Capital consents for 2004/05 will not be issued until late 2003 or early 2004 and the Council will therefore have to estimate the likely resources at this stage.

The Capital Budget process tends to be restricted to a fairly short period between February and April when the 3 year Financial Plan is updated to reflect variances arising from actual expenditure in previous years and the inclusion of an additional year at the end of the planning period. The Council Plan priorities are used as the main basis for allocating resources between individual services and Departments.

The Revenue Budget process tends to be a year round process, however, the most intensive period of activity takes place between July and February of each financial year.

The Administration Party determines priorities in line with projected resources and a Provisional Revenue Budget Volume is issued to all members in December. Before this happens, a list of possible savings, usually requested on the basis of a fixed percentage of net budgeted expenditure for each department, is submitted by Officers and issued to the Administration around September/October. After consultation with Officers, a number of these savings are adjusted within the Provisional Revenue Budget. The level of savings adjusted at this stage is influenced to some extent by the Scottish Executive Grant Settlement announced in December.
These savings tend to be of an administrative nature and do not represent changes in existing policy, which would require political approval.

Opposition members are not usually consulted until the Volume is prepared and no discussions take place with them in relation to possible savings.

Western Isles Island Council
The Council has an initial look at the budget and spending pressures somewhere between June and November of the preceding financial year. It then reviews the detailed policy and financial implications of any proposed service growth and savings in January.

Budget choices are considered in detail by a Member working party, elected from the full Council. Budgets are set and agreed in detail for a year ahead using a computerised budget “model” which gives a fairly detailed analysis of the shape and nature of the budgets for the two succeeding years. This helps Members and managers anticipate future budget pressures.

SCRUTINY AND MONITORING

Dundee
All Dundee City Councillors are members of every Committee and are therefore able to participate in and scrutinise all activities of the Council. The budget process is largely monitored through the Policy and Resources and Finance Committees.

Performance information is not used specifically in budget setting, however, the Council has set itself a target of being in the top 15 Councils in respect of the Accounts Commissions Statutory Indicators and, if appropriate, resources are adjusted during the budget setting process to aid performance.

Formal reports are submitted to the Finance Committee on a monthly basis from July to March, which also include projected outturn information and variance analysis. These reports are prepared by the Director of Finance following detailed consultation with the other Chief Officers of the Council. The budgetary monitoring process is carried out within Departments on a monthly basis.

There are no separate priorities established as part of the budget process other than new Scottish Executive priorities which allocate new or additional funding. All other priorities are determined via the Council's 3 year Plan, further expanded within 3 year Service Plans.

Spending targets are determined by the Chief Executive and Director of Finance based on existing budgets adjusted for pay and price inflation, approved growth/savings and other Corporate/Service demands and priorities.

Dundee City Council does not currently operate any formal system of year end flexibility or carry over. There are, however, occasions when known commitments anticipated to occur during one year, do not materialise until the following year. In these situations, funds are earmarked within General Fund balances and virement approved in the appropriate year. The Council may review its year-end flexibility for
individual departments/services as part of the next 3 year Revenue Budget process, commencing in 2004/05.

Western Isles
The Council does use performance information in budget setting.

- Performance indicators and benchmark indicators are included in the draft budget book, allowing Members to see where the service is in comparative terms.
- Members receive copies of CiPFA’s “rating review” - which sets out comparative costs of services across Scottish authorities.
- One-off comparative exercises within the budget setting process (for example comparing costs against GAE).

Quarterly revenue monitoring reports used to go to each Committee and to the Policy and Resources Committee. Last year Members agreed to receive information on an exception basis. Non-controversial budget reports go to the Director of Finance, who reviews them and provides a summary for all Members. The quarterly budget monitoring reports include a projection of spending at the end of the year. Members have indicated they wish to see monthly reporting, and this issue is currently under consideration.

Officers in Service Departments should monitor their budgets monthly, in some cases in partnership with accountants from the Finance Department.

Members also receive quarterly reports on capital spending, showing what is being spent by each Committee. We have moved towards a higher level monitoring and reporting to help Members focus on strategic issues.

The budget model generates “cash planning limits”, these are the budgeted maxima that Directors can spend (cash planning limits do not include uncontrollable items like loan charges).

Directors must ensure their spending does not exceed their cash planning limit. Directors can make a case for additional resources from contingency, and must report any “windfall” savings as part of the budgetary monitoring process. A team of middle level Officers review budget assumptions, their conclusions are referred to the Management Team for final sign off prior to discussion with Members.

A separate Scrutiny Committee has been established. That committee’s remit includes monitoring performance in the broadest sense. The Legal Services Manager is the Council’s Monitoring Officer. She reports to the Director of Corporate Services. These functions are an independent from the Chief Executive who is responsible for policy implementation.

The Comhairle has a policy framework for capital projects. Competing potential projects are scored by Members using agreed criteria - in turn linked to the priorities of the Council. For revenue the Council agrees similar policy priorities. Guidance on spending is issued at financial planning, financial monitoring and final reporting stages.
The Comhairle allows Committees to spend up to 1% over and 2% under their cash planning limits. This reduces the “year end” effect in spending. The Council holds reserves so that even if every Committee overspent by 1% the Council would still not be in deficit.

Conclusions

Budget setting in the local authorities looked at is very much the preserve of the governing administration. There was evidence of some imaginative attempts to encourage participation and involvement by local citizens, but the level of engagement remains relatively low. All three councils appear to have excellent systems in place to track variance in spend against budgets with monthly reporting being the norm. However, performance measurement appears to be weak with little in the way of meaningful targets and measurement of output against policies.
**Practice In The Private Sector**

**Introduction**

It was agreed that, as part of the scoping exercise, an examination would be made of the budget process and financial scrutiny within a private sector company based in Scotland. The Scottish Power Group was selected on the basis that it is a large business, within which are a number of limited companies, each reporting to the centre to ensure the financial stability of the whole enterprise.

**Profile of Scottish Power**

Scottish Power and its subsidiaries serve seven million homes and businesses in the UK and Northwest US providing electricity generation, transmission, distribution and supply services in both countries. In the UK, Scottish Power also supplies gas. It has three divisions (*US*, *UK*, and *Infrastructure*) and a number of subsidiaries within these. Power Systems is the major element of the Infrastructure Division.

Some of Scottish Power’s core businesses, e.g. Power Systems have always been part of the Group. Others are more recent acquisitions, e.g. ManWeb and PacifiCorp. Inevitably, these have different budgetary and control traditions and practices. However, the Group has moved towards standardising these, to ensure consistency in terms of assumptions, timescales and “rules of engagement”.

**The principles of the budget process**

The process is based on three factors:

- Ownership
- Accountability
- Challenge and justification

The current structure allows for dialogue and ownership. It is seen as important that each company and parts of the companies feel that they have had an opportunity to input and argue their case for funding. Final decisions are taken by the Executive board of the Group.

**The pre-budget process**

The company works on a twelve-month financial year that runs from April to March.

In setting the budget and maintaining scrutiny, great emphasis is placed on the relevance of each operation to an agreed 10 Year Business Plan. The annual budget does not begin until the Group develops this. The Plan places heavy emphasis on the strategic view, profiling the business on a year-by-year basis over the ten year period. For each year, the proposals and action plans are as detailed as possible (e.g. anticipating technology changes, IT developments, workforce pressures).
This is a rolling annual process to which each component company makes a contribution. While there is an recognition of the limitations of being able to plan for years towards the end of the 10 year period, there is an expectation that plans for the early part of the cycle should be reasonably firm.

The process of drafting the Plan usually begins early in the summer (prior to the financial year beginning the following April). Within each component business, a company 10-year plan is created.

Once this is agreed, it will be presented (along with the 10 year plans of the other businesses) to the Scottish Power executive board. The board will take the final decision. The ‘aggregate’ of this becomes the Group’s 10 Year Plan. There will be many competing claims for investment and development within the different parts of the Group. The Board will take the ultimate decision as to how much should be reinvested and how much should be returned to the shareholders. Each business must, therefore, put forward the best case for funding. The process is one of intense scrutiny and justification.

The Plan is normally agreed in October. Once agreed, each part of the Scottish Power Group builds an annual budget to deliver the first year. This will have earning predictions, investment predictions, cash flows, and expected outputs.

The budget process

The budget is constructed on the basis of what is needed to be done (e.g. efficiencies, generate revenues) to meet the targets agreed for year 1.

In order for each group to achieve the initiatives and targets set out in the plan, it must budget to meet its agreed outputs for year one. It has to convince the board that it is doing things in year one that will enable years 2 and 3 to be on target. This is taken seriously by the managers of each business. If they cannot demonstrate that they can meet the targets for the first year, then the Group management will have no confidence that they will be able to deliver in later years.

Using Power Systems as an example, its Directors will meet regularly with the managers of each component part of Power Systems. Each will have a list of initiatives that will deliver the promises made for the Business Plan. They will discuss how best to construct the budget to reach year 1 (e.g. staffing levels and costs, procurement efficiencies, purchasing savings). These feed into the Power System budget, to produce a budget that will deliver Year 1.

Towards the end of the year, this is reported back to the Scottish Power Chief Executive. He will heavily scrutinise, demand justification and ensure that Year 1 of the Business Plan, as agreed, will be delivered by this budget.

By February, the process is completed.

At all stages, the budget process is dependent upon the 10 year strategy, as updated every year. Every decision must link into the agreed perception of business
priorities. The budget is always part of the long term plan. Every decision is taken with this in consideration.

**Scrutiny**

Scottish Power reports on a quarterly basis to the City of London. It also produces annual report and accounts.

Within the Scottish Power Group, each company reports to the centre on a monthly basis, via a business performance report. These inform the Chief Executive and the Group Finance Director how each company has performed against the expectations of the Business Plan.

Reporting is never just on a financial/accounting basis. It is always linked to the objectives of the plan. There is, therefore, considerable emphasis on outputs and outcomes.

The Executive board holds a meeting each month, which, in effect, is a performance review. The performance of each of the companies will be assessed against expected performance and asked to justify variance.

**Reporting back to staff**

Each business within the group has its own operational plan, which informs staff of how each staff member is performing in relation to the plan. They hold briefing seminars and question and answer session, relating not to the Group’s budget but to the plan as if affects their local area.

Everybody “owns” the budget. What they do is seen as part of the overall plan, of which the budget is an intrinsic part.

There is a constant search to develop realistic performance measures. It is deemed important that staff can relate their own jobs to local output measures (all of which feed into the meeting of the Strategic Plan). In the view of the Finance Director, the important thing in these measures is the trend that there is continual improvement.

Great importance is placed on mutual trust and co-operation. The sharing of information is seen as crucial and the avoidance of surprises essential.
Finance Committee

Cross-Cutting Expenditure Reviews

Background

At its meeting on 12 March 2002, the Committee agreed to consider two subjects for its cross-cutting expenditure review: Children and Poverty, and the Funding of the Voluntary Sector with the focus on regeneration issues. This paper seeks the committee’s agreement to the conduct of the reviews in terms of remit and methodology. The Executive has agreed to give an informal presentation to the Committee on the conduct of its cross-cutting reviews and the arrangements for that will be finalised shortly.

Methodology

The Committee has agreed that the reviews will be completed by the end of the year. To take the work forward, it is suggested that, for each review, (1) a reporter group of at least two Committee members be appointed from the Committee and (2) to assist the reporters, it is proposed that the Committee seeks the appointment of an adviser to each reporter group.

The adviser will be an expert in the field and will be responsible for managing the review and procuring and distilling information as the review progresses. The reporters and the advisers will also wish to undertake evidence gathering from relevant organisations and individuals. The adviser will be responsible for drafting a final report for the reporter group to present to the Committee.

To further support the work, it is suggested that the reporter groups meet with relevant subject experts/consultees on a regular basis during the course of the review. Reporters may wish to do so three or four times over the course of the year: possibly in April to discuss a plan of work; in June and September to review progress and focus on issues arising; and in December to discuss the report back to the Committee.

The Clerks are currently considering ways in which the reporter groups can be supported in terms of individual research projects that may arise as the review progresses. The Committee is asked to agree that the Convener approaches the Conveners’ Liaison Group with a bid for research support for the reporter groups.

Children in Poverty

Remit
To consult with relevant organisations and individuals to identify and examine those budgets and programmes across Scottish Executive departments which provide funding specifically targeted at improving the position of children in poverty; to examine whether there is adequate co-operation, to identify any scope for removing barriers to effective co-operation; and to assess whether
the individual programmes are meeting or are likely to meet the policy objectives.

Consultees
As stated above, the reporter group may wish to consult with subject experts over the course of the review. **Members are asked to decide who these consultees should be.** It is suggested that the aim should be to identify the main players as consultees, with the reporter group deciding on the organisations and individuals from whom evidence can be taken. It is further suggested that both the Committee’s standing adviser and a nominated member from Audit Scotland should be consultees. The standing adviser will be responsible for the financial aspects of the review.

The remainder of consultees could include the following:

- Child Poverty Action Group
- Scottish Poverty Research Unit
- National Lottery Funding Board
- Convention of Scottish Local Authorities
- Scottish Executive (observer status)?

The Voluntary Sector

Remit
To consult with relevant organisations and individuals to identify and examine those expenditure programmes across Scottish Executive departments which provide funding via the voluntary sector for projects specifically intended to contribute to the regeneration of communities; to examine whether there is scope for pooling or reprofiling of funding arrangements; to investigate whether there is adequate co-ordination between funding agencies and delivery agencies, especially non-government organisations and to identify any scope for removing barriers to effective co-ordination; and to assess whether the individual programmes are meeting or are likely to meet the overall policy objective.

Consultees
As with the previous review, it is suggested that the reporter group may wish to consult with subject experts over the course of the review. **Members are asked to decide who these consultees should be.** It is again suggested that both the Committee’s standing adviser and a nominated member from Audit Scotland be consultees. The standing adviser will again be responsible for the financial aspects of the review.

The remainder of the group could be drawn from the following:

- Scottish Council for Voluntary Organisations
- CoSLA
- Scottish Enterprise
- The Wise Group
• Strathclyde European Partnership

Summary

The Committee is asked to agree the following:

• to set up reporter groups to take each review forward
• the remit and membership of each Group
• that an adviser to each group should be appointed
• a list of consultees from whom soundings will be taken during the course of the reviews

Should the Committee agree the above, the early appointment of advisers will be sought in order that the reviews can commence as soon as possible.

David McGill
20 March 2002
Options Paper
2003/04 Budget Process – Meeting Outside Edinburgh

Background

At the Finance Committee meeting on 15 January, it was agreed that the Committee would, as part of its ongoing commitment to meet outwith Edinburgh at stages 1 and 2 of the annual budget process, seek to meet in or around Aberdeen to coincide with the full Parliament being convened there between 28 and 30 May. The initial date selected was Monday 27 May. Despite the best efforts of everyone involved, resourcing problems with broadcasting and the Official Report now mean that this date is no longer available.

Timing

The Committee could decide to delay the meeting until after the Parliament returns to Edinburgh. However, that creates problems as the following Monday and Tuesday are public holidays and any further delay in holding the meeting will create problems in the publication of a report sufficiently in advance of the stage 1 debate for proper consideration by all members. The suggestion is therefore that the Committee aims to meet the week previous to the move to Aberdeen. The plenary will not meet that week, but Committees will. As the Committee is likely to require a full day to complete its business, it is suggested that it agrees to meet on Thursday 23 May.

We have been advised that there is Ministerial availability for this date.

Locations

At the 15 January meeting, the Committee requested the clerks to examine the possibility of holding the meeting in Montrose or, failing this, Stonehaven. Preliminary investigations have been made and both venues are suitable and available.

However, as the above locations were tied to the meeting of the Parliament in Aberdeen, the Committee may wish to return to its original suggestion, considered at the meeting of 15 January, to meet in the Northern Isles. As explained at that meeting, the Enterprise and Lifelong Learning Committee is to meet in Shetland on 17-19 June. Members accepted that it would not be desirable for two Committees of the Parliament to meet in Shetland around the same time and preliminary inquiries have therefore been made in relation to a meeting in Orkney. No Parliamentary Committee has so far met in Orkney and there are no problems in relation to the servicing of the meeting by Broadcasting or the Official Report.

It is therefore suggested that the Committee agrees to meet in Orkney on 23 May.

Format for meeting

As was agreed on 12 February, the Committee will undertake a similar exercise to that in Kirkcudbright last year. Then, evidence was taken in the morning from local organisations to obtain a snapshot of how the national draft budget proposals are
viewed locally and how engaged local organisations are with the process. This was followed by evidence in the afternoon from the Minister in relation to the AER.

**Procedure**

A fully costed request to hold a meeting outside Edinburgh must be made to the Bureau and other than in exceptional circumstances, such a request will not be considered unless it has been referred from the Conveners Liaison Group. The deadline for submission to that group is **29 March** and a request will be submitted by the clerks in advance of that date.

**Recommendation**

Members are asked to agree to meet in Orkney on Thursday 23 May. The clerks will bring forward suggestions as to which organisations the Committee may wish to hear from at a later meeting.

David McGill
21 March 2002