FINANCE COMMITTEE

AGENDA

7th Meeting, 2002 (Session 1)

Tuesday 16 April 2002

The Committee will meet at 10.00 am in Committee Room 2 to consider the following agenda items:

1. 2002 Spending Review: The Committee will receive a briefing from Richard Dennis, Finance and Central Services Department, The Scottish Executive.


3. Financial Scrutiny Review: The Committee will receive a briefing from its adviser on its review of financial scrutiny arrangements.

4. Items in Private: The Committee will consider whether to take a paper on advisers for its cross-cutting reviews in private at its next meeting.

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 2**

*The Scottish Budget 2003-04* – Members are reminded to bring their own copy

- Paper by Professor Midwinter on the Scottish Budget  
  FI/02/7/1

- Paper by Professor Midwinter on consultation  
  FI/02/7/2

**Agenda item 3**

- Paper by Professor Midwinter  
  FI/02/7/3

Paper FI/02/6/1 (previously issued for meeting of 26 March) - Members are reminded to bring their own copy
Finance Committee

The Scottish Budget 2003-4: A Briefing Note on the New Annual Expenditure Report

1. The Annual Expenditure Report for 2003-4 reports a further growth in the Scottish Budget, of 5.6% in cash terms over the current year; from £21098m to £22287m. In real terms, this constitutes growth of 3.1%. The provision for 2003-4 has been enhanced by £96m through a range of supplementary allocations since SR2000.¹

2. Within Total Managed Expenditure the Committee should note that between 2002-03 and 2003-04, there is a fall in the provision for capital spending of £79m, arising from the capital costs of the Scottish Parliament.² Secondly, there is a growth of expenditure to meet payments under PFI contracts of £40m (cash) over last year. This total has grown considerably since 2000-1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>£107m</td>
</tr>
<tr>
<td>2001-02</td>
<td>£218m</td>
</tr>
<tr>
<td>2002-03</td>
<td>£317m</td>
</tr>
<tr>
<td>2003-04</td>
<td>£357m</td>
</tr>
</tbody>
</table>

Source: AER 2003-4 p 13

3. There are two strategic issues for the Committee.

   - Is the committee content with the planned total of the budget, or does it wish to recommend that this should be increased/decreased by use of the tax-varying powers?

   - Is the committee content with the balance of funding between programmes, or does it consider that reallocation is necessary?

¹ Table 0.12 of the AER
² Table 0.5 in the AER
4. The *expenditure total* is matter of political judgement. If the committee is satisfied with the continuation of funding growth through the UK financial arrangements, then no action is necessary. Adjustments of a penny on/off income tax is equivalent to around £280m of expenditure.

5. The report also sets out the Scottish Executive’s expenditure priorities in the Foreword as requested by the Committee. The First Minister sets out *five tests* for spending decisions. In summary, these are targeting priorities; measuring outputs; assessing benefits; monitoring performance; and promoting best value. The priorities for targeting are:

- improving health
- improving education
- reducing crime
- strengthening transport
- strengthening the economy.

6. These commitments require some general comment. The first is that the Parliament will only be able to scrutinise these tests properly when ministers fully provide the information in the format agreed by Angus Mackay in November 2001. The Parliament needs to be able to distinguish baseline expenditure from new expenditure, and receive a formal report of the expected outputs from such new spending, before it can assess the Executive’s proposals sensibly. For 2003-4, I suggest we use the attached table derived from the real terms data in the AER as benchmarks for new spending, and advise the subject committees to question ministers directly over the anticipated outputs.3

7. Secondly, it appears the Executive’s priorities have changed from the draft budget of September 2000.4 In that document, the key priority was ‘promoting social justice by tackling disadvantage and deprivation’, but also included were improving infrastructure; creating a competitive economy; and modernising public services. It appears that only the economic objective remains a priority – although modernisation is a suitably vacuous concept by which it is possibly to justify almost any new spending. *Members may wish to raise the relative priority of social justice in the budget with the Minister, and ask if its removal means that significant progress has been made (and if so how?).*

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3 Members should be aware that, in this year’s AER, real term figures for 2002-03 and 2003-04 have been deflated to 2000-01 prices and not, as stated in the document to 2001-02 terms.

4 Scottish Executive (2000) *Making a Difference*, p.2
8. Thirdly, members may wish to consider whether five priorities are too many to be meaningful in budget setting. Health and school education spending combined account for £10 billion (including GAE) of the £22 billions total, whilst the transport, justice and enterprise & lifelong learning budgets account for a further £4 billions, leaving only 37% of the budget as low priorities. According to the AER, for 2003-4, the increases in these programmes are planned as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>+3.9</td>
</tr>
<tr>
<td>School education (inc. GAE)</td>
<td>+2.1</td>
</tr>
<tr>
<td>Justice</td>
<td>-1.7</td>
</tr>
<tr>
<td>Transport</td>
<td>+6.6</td>
</tr>
<tr>
<td>Enterprise and Lifelong Learning</td>
<td>+0.2</td>
</tr>
<tr>
<td><strong>Total Budget</strong></td>
<td><strong>+3.1</strong></td>
</tr>
</tbody>
</table>

This suggests that at Level One, only two of the expenditure priorities received above average increases. Now in practice, some elements of other budgets can be construed as promoting these priorities. For example, better housing and less pollution can promote better health; and the rural affairs programme has economic implications. The Committee may wish to advise the subject committees to consider these priorities in their deliberations over subject priorities, and to seek a response from the Finance Minster to these comments, particularly as several non-priority budgets have received above average increases (e.g. environment, rural affairs; social justice).
Conclusions

This review of the new AER has raised a number of issues for the Committee to address in its deliberations. In particular:

- Does the Committee consider any use of the tax-varying powers to increase/decrease expenditure is required?

- Should the Committee pursue a commitment from the new Finance Minister that the changes in budgetary information agreed by his predecessor will be implemented in full by 2004-5.

- Is the Committee concerned at the apparent radical change in expenditure priorities since September 2000; and particularly the absence of social justice as a stated priority?

- Is the Committee concerned that 63% of the spending programmes are regarded as priority, or should there be fewer priorities?

- Why have only two of the identified priority programmes received above average percentage increases?

The Committee is invited to decide how it wishes to address these issues in the budget process, and to identify any other issues it wishes to consider.

Professor Arthur Midwinter
April 2002
# Real Growth in Total Managed Expenditure 2002-03 to 2003-04

(2000-01 prices)

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Modernisation Fund</td>
<td>-27</td>
<td>-84.4</td>
</tr>
<tr>
<td>Central Government support for Local Authorities</td>
<td>281</td>
<td>4.1</td>
</tr>
<tr>
<td>Children and Central Government Education</td>
<td>-8</td>
<td>-3.9</td>
</tr>
<tr>
<td>Community Care</td>
<td>-1</td>
<td>-11.1</td>
</tr>
<tr>
<td>Crown Office</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Enterprise and Lifelong Learning</td>
<td>4</td>
<td>0.2</td>
</tr>
<tr>
<td>Environment</td>
<td>23</td>
<td>4.3</td>
</tr>
<tr>
<td>EU Structural Funds</td>
<td>-59</td>
<td>-31.4</td>
</tr>
<tr>
<td>Food Standards agency</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Forestry</td>
<td>1</td>
<td>1.2</td>
</tr>
<tr>
<td>Health</td>
<td>244</td>
<td>3.9</td>
</tr>
<tr>
<td>Justice</td>
<td>-12</td>
<td>-1.7</td>
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<tr>
<td>Modernising Government Fund</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Rural Affairs</td>
<td>21</td>
<td>3.6</td>
</tr>
<tr>
<td>Scottish Executive Administration</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Scottish Executive Associated Departments</td>
<td>-1</td>
<td>-4.8</td>
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<tr>
<td>Scottish Public Pensions Agency</td>
<td>53</td>
<td>23.7</td>
</tr>
<tr>
<td>Social Justice</td>
<td>64</td>
<td>9.0</td>
</tr>
<tr>
<td>Sport, Culture and Tourism</td>
<td>-1</td>
<td>-0.6</td>
</tr>
<tr>
<td>Transport</td>
<td>68</td>
<td>6.6</td>
</tr>
<tr>
<td>Scottish Parliament &amp; Audit Scotland</td>
<td>-45</td>
<td>-31.5</td>
</tr>
<tr>
<td>DEL RESERVE</td>
<td>12</td>
<td>63.2</td>
</tr>
<tr>
<td>AME RESERVE</td>
<td>0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Total 615 3.1

Finance Committee
The Budget Process 2003-4: Consultation

Background
The budget process was intended by FLAG to provide a basis for power-sharing between the Executive, the Parliament and the Scottish people. Whilst the Executive consults with the Parliament and the public, it would in my view strengthen the Committee’s deliberations if it were to receive evidence on budget proposals from beyond the Executive.

Potential witnesses
A list of potential witnesses is suggested below for members’ consideration. Witnesses could be invited to submit a summary paper in advance of an evidence-taking session, and to provide an assessment of:

- the adequacy of the planned expenditure total for 2003-4; and to consider whether any use of the tax-varying power should be made;

- the Executive's expenditure priorities as stated in the AER and the balance of allocations between programmes;

- the balance between capital and operational expenditure;

- the implications of the growth in funding in support of PPP/PFI projects;

- any other issues of relevance to the Committee’s strategic role in the budget.

Potential witnesses would include national interest groups and appropriate specialists, such as:

- CBI Scotland
- STUC
- Civic Forum
- Jeremy Peat, Head of Economics, Royal Bank of Scotland
- Peter Wood, Director, DTZ Pieda Consulting
- Alf Young, Deputy Editor, The Herald Newspaper

Decision
At the Committee’s meeting on 23 April, it will take evidence on the budget of the Scottish Administration from Executive officials. In addition, the Committee will be seeking a local perspective from witnesses at its meeting in Orkney in May. In addition to these sessions, Members are asked to agree to take evidence from other organisations on the basis of the above and to agree which organisations should be invited to give evidence.

Professor Arthur Midwinter
Finance Committee
Review of Financial Scrutiny: The Next Steps
Professor Arthur Midwinter

The Scoping Paper received by the Committee at its last meeting covered a wide range of issues. Some of these referred to decision-making within the Executive; others related to matters for the Parliament. This paper seeks to provide a synthesis of the topics raised in the review in order to focus on issues which need further work.

FIAG covered four topics of relevance to the Finance Committee – terminology; budgetary procedures; accounting arrangements and public accountability. These are considered in turn.

**Terminology**
Some progress has been made with the provision of the SPICe Glossary of Public Finance, and advice from Plain English Society. FIAG’s recommended ‘financial briefing package’, has not been provided. The Committee may wish to consider the production of a General Guide to the Scottish Budget written in a jargon-free way. (For example, I have produced such guides on local government finance for the ACCA).

**Budgetary Procedures**
It is recognised that there has been progress with budgetary reform, and changes have been agreed which will:

- distinguish baseline spending from new expenditure in the budget proposals;
- summarise the outputs expected from new spending;
- provide consistent and comparable information over the whole process;
• help Committees identify priorities and options for recommendation to the Executive.

The main weakness in the process is over strategy. The Scoping Report suggests a need for a strategic approach to scrutiny (as proposed by the Auditor General). It would be preferable however, to strengthen the Committee’s consideration of budget strategy in terms of spending priorities and their impact on the budget. The budget process is driven by consideration of AER; draft budget and budget documents – unlike the Audit Committee whose workload is focused on Audit Scotland’s reports.

The Committee is therefore asked to note the ongoing work to:
• improve output/outcome information
• improve data on spending agencies
• develop resource accounting and budgeting

and should seek to strengthen the strategic dimension in the current year, including resource targeting referred to in paragraph 46 of the Scoping Report.

**Accounting Issues and Public Accountability**

This leaves a number of issues of accounting practice and public accountability for further review. These are:
• budget transfer system;
• performance reporting;
• financial memoranda;
• transparency of financial information;
• community consultation.

**Research Support**

The scoping paper makes the case for a review of scrutiny arrangements in other countries. This would be more helpful than drawing comparisons with Scottish Power or local authorities, who have service delivery functions. As the Principal Finance Officer stated in the meeting with former FIAL members on 21 March, the Scottish Budget is a means of transferring grant-in-aid to public bodies, and
the voluntary and private sectors. The Scottish Executive does little direct spending of public money. Such a study could provide more direct comparisons with institutions with similar functions.

In addition, research support would be helpful in the production of the General Guide. The SPICe papers are useful starting points in key terms and the budget process, but producing a Guide requires a lead writer to concentrate on developing it, rather than SPICe staff tackling the work when available.

**RECOMMENDATIONS**

The Committee is invited to:

- note the ongoing work to improve the information base of the budget process, including RAB;

- refer the issue of developing strategic capacity to the Adviser and the Clerk for consideration during this year’s process;

- focus its review on the accounting issues raised in the Scoping Paper, and appoint an adviser with a background in public accounting. These are budget transfers; performance reporting; financial memoranda; three-year budgets; improving financial transparency; and practice of compulsory consultation.

- seek research support for the development of a General Guide to the Scottish Budget;

- consider funding a comparative study of scrutiny practices in devolved/regional governments in other countries (e.g. German Lander; Canadian Provinces etc.).