FINANCE COMMITTEE

AGENDA

18th Meeting, 2002 (Session 1)

Tuesday 24th September 2002

The Committee will meet at 10.30am in Committee Room 2 to consider the following agenda items:

1. **Items in Private**: The Committee will decide whether to take items 5 and 6 in private.

2. **Financial Scrutiny Review**: The Committee will consider a paper from the Clerk.

3. **Cross-Cutting Reviews**: The Committee will consider an update paper.

4. **Budget Process 2003-04**: The Committee will consider an options paper for meeting outwith Edinburgh at stage 2 of the budget process 2003-04.

5. **Spending Review 2002 and Budget Process 2003-04**: The Committee will consider a paper from its adviser.

6. **Water Environment and Water Services (Scotland) Bill**: The Committee will consider a draft report.

David McGill
Clerk to the Committee
The papers for this meeting are:

**Agenda item 2**

Paper by the Clerk, SPICe and adviser  
FI/02/18/1

**Agenda item 3**

Paper by the Clerk  
FI/02/18/2

**Agenda item 4**

Paper by the Clerk  
FI/02/18/3

**Agenda item 5**

Paper by adviser  
PRIVATE PAPER

**Agenda item 6**

Paper by adviser  
PRIVATE PAPER
Financial Scrutiny Review

Update on progress

Introduction
1. Members will recall that the Committee decided on 29 January 2002 to undertake a review of the financial scrutiny arrangements that exist in the Parliament, with a view to identifying practices and procedures which could be improved or streamlined, in order to ensure that the Parliament was in a position to take a careful, measured and strategic approach to its scrutiny of the Executive’s expenditure plans.

2. The review has so far proceeded as a number of individual discreet projects, some of which have been completed, some of which are in progress and some which are still to begin. This paper is designed to update members on progress to date and to seek input into a number of the initiatives being pursued or under consideration.

Background
3. At its meeting on 26 March 2002, the Committee considered a broad scoping paper in relation to a possible review of scrutiny arrangements. That paper dealt with the history of the current arrangements and suggested a number of areas in which the Committee could seek improvements. Members asked for a more concise document setting out suggestions for taking the review forward and that was subsequently produced as paper FI/02/7/3. That paper has provided the focus for the work done so far on the review. In addition to these papers, the Convener also met with former members of the Financial Issues Advisory Group (FIAG) on 21 March, in order to seek their views on how successfully the budget process has operated to date, and to seek advice on areas in which the Committee could reasonably expect to make progress.

Initiatives carried out
4. A number of separate projects have been carried out and progress has been made on several issues. These include:

Financial Memoranda
5. The Committee has recently taken evidence and reported on the Financial Memorandum of the Criminal Justice (Scotland) Bill, and will consider a draft report on the Financial Memorandum for the Water Environment and Water Services (Scotland) Bill. As the Convener announced at the meeting on 10 September, Ian Doig, who is the Director of CIPFA in Scotland, has recently been appointed to advise the Committee in relation to the scrutiny of the financial implications of draft legislation. This was the most important area identified by the former FIAG members in relation to gaps in the scrutiny process. The Committee’s investigation of the above Bills has introduced an element of scrutiny that has been lacking to date, while the addition of a specialist adviser has ensured that professional assistance is available to the Committee in this area of work. At the time of agreeing to seek the appointment of an adviser, the Committee had some reservations as to the ability of an individual to comment on Bills covering a wide range of policy areas. The adviser’s remit is to look at the
financial aspects of the Bill only, but given that it is often difficult to separate these from policy in certain Bills, it is suggested that the Committee reviews the operation of this arrangement towards the end of the current session.

Consultation

6. Initially, the Committee sought evidence on the budget documents only from Executive officials and Ministers. In recent years it has expanded this process by holding a series of very successful external meetings, where local organisations and individuals provide their “snapshot” views of the Executive’s expenditure proposals. This year, for the first time, the Committee also took evidence on the national proposals from a number of experts in relevant fields. Again, this session proved to be successful and provided a valuable insight into the effect of the national proposals. This trend of increasingly involving individuals and pressure groups in the Scottish budget process is firmly in line with the principles envisaged by FIAG which recommended greater public involvement than occurs under the Westminster system. Members are asked to decide whether the Committee should continue with this process of increasing public participation in the budget process.

Transparency

7. The issue of transparency has been of major concern to the Committee for some time. Research commissioned by the Committee and carried out by Arthur Midwinter last year resulted in “The Real Scope for Change” being published by the Committee. That research suggested three main areas in which the Committee could seek developments and these have now been promised for this year’s draft budget and future budget documents. The overall effect will be to increase the Parliament’s awareness of changes to spending priorities and to identify areas in which the Parliament and its committees can influence spending proposals. It is generally accepted that the content and presentation of the budget documents have improved markedly since the first publications and this has helped to increase transparency in the process. The Committee may wish to note and welcome the progress made in this area while indicating that further improvements can still be made, including the implementation of Executive commitments.

8. In addition, the Committee has published research carried out by Norman Flynn entitled “Moving to Outcome Budgeting”. The Committee has acknowledged that any moves in this direction have to be taken with care and are likely to be long-term. With that in mind, the research was put out to consultation with 68 organisations and individuals invited to comment on its contents. The intention of the consultation was to examine the extent to which outcome budgeting has been adopted across a range of public sector bodies and whether there is any merit in this system of budgeting being adopted on a wider basis. 18 responses have been received so far, which are being summarised for a paper to be considered at a future Committee meeting. In the meantime, copies of the responses are available from the clerks on request.
Initiatives underway
9. Other issues have been identified as falling within the scope of the overall review of financial scrutiny arrangements, which are underway or have still to be progressed. These include:

Comparative research into financial scrutiny
10. At its meeting on 21 May, the Committee agreed to commission external research into financial scrutiny in other countries and territories. The purpose of the research was summarised as:

“The proposed project will examine the budget process and systems of financial planning, control and scrutiny in the public sector in other devolved/regional territories.”

The contract for the research has recently been awarded to Public Futures (Knowledge) Limited which is a networked organisation consisting of a core group of academics drawn mainly from the University of Glamorgan. The research will be lead by Professor Colin Talbot, who is one of the UK’s leading experts on public management reforms, particularly budget and performance management systems. The research will begin immediately and will aim to report by the end of this year, with a presentation to the Committee early in the new year. It has been stressed that the outcome of the research is expected to be a number of concrete proposals for change and improvements to the current system of budget scrutiny in Scotland.

Performance reporting
11. It has been suggested that the Executive should be asked to consider publishing a document akin to an annual report. Unlike the Annual Expenditure Review which sets out spending plans for the coming years, this document would set out what has been spent in the previous year and what has been obtained from that expenditure. It is expected that it should effectively consist of outturn results set against previously agreed targets.

12. Members have previously sought Ministerial commitments to produce either quarterly or bi-annual reports on performance but these have not been forthcoming. It is suggested that, given the size of the Executive budget and the propensity for expenditure programmes to be amended during the year, there may be little merit in pushing for more regular reports. FIAG considered this matter and recommended that:

“an interim report should be provided to the Parliament in May containing performance management information in relation to the financial year which will have just drawn to a close. The intention is that this information would inform the Scottish Parliament’s consideration of resource allocation decisions throughout the early summer. (Para 4.17).

13. The proposal for an annual performance report would strengthen the scrutiny process and complement the Committee’s request for an assessment of the expected outputs from new spending in the budget. However, there is an inevitable timelag in obtaining the output information for performance reporting, and it is clear that FIAG viewed this as part of the audit process, not the budget
process. This is not to deny that such information could not be of value to resource allocation considerations, but the Audit Committee may be better placed to take this forward.

14. There is currently some performance information in the budget documents, but it is neither systematic nor standardised. The Justice chapter in this year’s AER, for example, contains measures of outputs (manpower levels), activities (e.g. premises inspected) and performance against targets (e.g. legal aid applications processed within 5 days). The Health chapter, by contrast, has statistics on provision and costs per case, and broad objectives and targets. Finally, the Local Government chapter contains objectives and targets regarding the function of paying grants, with no discussion of the outputs delivered. **SPICe is working on an analysis paper of the practice in several key spending areas, which will be ready shortly.**

15. FIAG envisaged the annual performance report to be an interim measure to be used until RAB was fully implemented throughout the Executive’s budgetary and accounting procedures. It also saw it as being part of the AER. **Members are asked to consider whether, notwithstanding the advent of RAB, they wish to pursue the production by the Executive of an annual performance management report.** If members are inclined to seek this innovation, it is suggested that it be produced as a separate document to the AER in order to avoid confusion with spending proposals.

**Cross-cutting reviews**

16. Due to the fact that the budget documents are presented in departmental chapters, members were concerned that there was little or no scrutiny of spending which cuts across those departmental boundaries. As only the Finance Committee was in a position to review such expenditure, it was decided to conduct two reviews of spending in cross-cutting areas in order to see what was being delivered and whether that delivery was as effective and economical as it could be.

17. The Committee decided to review spending in relation to Children in Poverty and Regeneration as delivered through the Voluntary Sector. Work on these reviews is well underway and a separate update paper is available.

**Tracking spending announcements**

18. At the meeting of former FIAG members, it was observed that where the Scottish Executive produces press releases which highlight new spending commitments, these releases do not always make it clear from which budgets or funding sources such commitments will be financed. The clerks have analysed a number of these announcements, covering a three month period to the start of 2002, and found that there is a lack of consistency in terms of the information provided, making it difficult to trace the new money that is being allocated. Some releases state that the new funding has come from, for example Barnett consequentials, while others can, despite not providing this level of detail, be tracked back to the budget documents. There are a significant number, however, where no such deductions can be made. Scottish Executive officials have been made aware of this analysis and have been asked to consider ways in which the press releases
can be made more transparent by providing information in a more consistent manner. The Committee is asked to note the ongoing consideration of this matter and to consider the Executive’s response in due course.

**Budget Transfers**

19. At paragraph 1.11 of its report, FIAG sets out proposals for budget transfers during a financial year and interaction with the Parliament in relation to such in-year moves. Arthur Midwinter has spoken to Executive officials in order to ascertain current practice and procedure in relation to budget transfers.

20. He has reported that FIAG’s recommendations were that the Executive should be allowed reasonable discretion to transfer funds with appropriate internal control, subject to regular reporting to the Parliament. FIAG also recommended that transfers between sections or subheads of a departmental budget should be allowed and that departments should be able to transfer up to 15% or £50m (whichever is the lesser). In practice, all transfers are reported to the Parliament. Professor Midwinter reports that the issue is currently under consideration by the Executive and that provision for automatic transfer of small sums (possibly under £10,000) may be sought from the Parliament. The Committee may wish to examine the current system and decide whether it is content with the set-up or whether it wishes to explore options for change. The final bullet point of FIAG’s paragraph 3.46 states that “the system for budget transfers should be reviewed in 2002 (for 203-04)”.

**General Guide to the Budget**

21. Paper FI/02/7/3 recommended that the Committee seeks research support for the development of a general guide to the Scottish Budget and the Committee agreed that recommendation at its meeting on 16 April 2002. It is envisaged that the guide will cover both budget setting and budget scrutiny, and will also cover the systems that the Committee is endeavouring to put in place.

22. SPICe is currently working on producing a summary of experience so far and will draft a guide to the process (incorporating any changes recommended by the Committee) for consideration by Members early in the new year.

**Summary**

23. Given the nature of the work underway so far, it is likely that the FSR will continue until some time into the new year. As stated, advisers have been appointed to try and provide more detailed scrutiny of Financial Memoranda, and to progress the Cross-Cutting expenditure reviews, while external research has been commissioned on financial scrutiny in other countries and territories. All of this work is scheduled to run until at least the end of 2002, while there are also a number of smaller pieces of work to be completed.

24. As can be seen, there is still a considerable amount of work to be done in relation to the review. Members will recall that wider issues have been raised which may require to be addressed in the long term. These include recurring concerns on the part of subject committees in relation to the similarities between stages 1 and 2 of the annual budget process. There are also valid concerns about the effect on the annual process of spending reviews (every 2 years) and elections (every 4
years). There is a need to ensure that the Parliament is able to carry out its
scrutiny function fully and effectively in those years and members may wish to
decide that these matters be addressed on completion of the FSR.

David McGill
19 September 2002
At its meeting of 7 May 2002, members were provided with an update paper on how the two cross-cutting expenditure reviews, into Children in Poverty and Regeneration as delivered through the Voluntary Sector, were progressing. This paper provides a further update on both reviews.

**Children in Poverty**

Professor Jonathan Bradshaw, who is leading the review, has identified three pieces of external research to be commissioned, which can be summarised as follows:

- “To research evidence regarding the impact of local government spending on children in poverty in Scotland, and identify the key issues relevant to the crosscutting review.”

- “To research evidence regarding the impact of the housing spending programme on children in poverty in Scotland, and identify the key issues relevant to the crosscutting review.”

- “To research evidence regarding the impact of the health spending programme on children in poverty in Scotland, and identify the key issues relevant to the crosscutting review.

The research is being managed by SPICe. To date, John McKendrick, from the Centre for Research on Families and Relationships and Kay Tisdall, Children in Scotland, have been commissioned to carry out the research on local government spending and children in poverty. They have provided Jonathan Bradshaw with an interim report and expect to produce a final report by Wednesday 2 October.

In addition to this commissioned research, 25 organisations and individuals have been asked to provide written evidence by Friday 11 October 2002. Oral evidence will then be taken in late October and November, with a view to a final report being produced by the end of December.

**Regeneration as delivered through the Voluntary Sector**

Dr Robert Rogerson, who is leading the review, identified that research should be commissioned with the specific aim to:

- identify good practice and issues arising from the funding relationship between NDPBs and voluntary organisations contributing to the Executive’s goals of regeneration of communities.

This can be broken down further as follows:
• To provide an overview of regeneration policy in Scotland.

• to identify the specific funding routes and projects which have the aim of contributing to the regeneration of communities, which involve cross-cutting (ie inter-agency) action and which map onto the regeneration programmes of the Scottish Executive.

• to identify the methods of funding selection and decision-making within agencies and partnerships and to evaluate the impact of this on effective partnership working (including shared funding).

• to identify a small sample of funded projects/organisations which can provide an assessment of the impact of grant giving through indirect funding, and offer insights into the current practice of monitoring, auditing and impact assessment.

• to conduct interviews or other appropriate qualitative techniques to exemplify the current impact of grant giving through indirect funding, and offer insights into the current practice of monitoring, auditing and impact assessment.

• to provide a report on the specific case studies and to draw some wider implications across the sector.

The research is also being managed by SPICe. Sue Sadler has been commissioned to carry out the research and expects to produce a report by Wednesday 2 October.

In addition, Dr Rogerson has requested written evidence from the Executive, as well from the group of six consultees asked to assist in the review. Dr Rogerson is also planning a number of oral evidence sessions sometime in November with representatives from the Voluntary Sector, Executive officials and Ministers. Members will be informed of the dates of these sessions as soon as possible.

Dr Rogerson expects to produce the final report for the Committee by the end of December.

Terry Shevlin
Gerry McInally
19 September 2002
Options Paper
2003/04 Budget Process – Meeting Outside Edinburgh

Background
The Committee agreed at its last meeting that it would meet in either Portree or Ullapool on Monday 18 November as part of stage 2 of the Budget Process 2003-04, in accordance with its commitment to meet outside Edinburgh each year at both stage 1 and 2 of the annual process. As Members will recall, the Committee met in Orkney earlier this year at stage 1.

Locations
Enquiries were made into meeting in both Portree and Ullapool on 18 November. Unfortunately, there was no venue available on that date in Ullapool. However, the Council Chambers in Portree is available and should prove suitable for a meeting of the Committee. That venue has therefore been booked and the clerks are currently contacting potential participants from the local area to attend the meeting.

Procedure
A fully costed request to hold a meeting outside Edinburgh must be made to the Bureau and, other than in exceptional circumstances, it will not consider such a request unless it has been referred from the Conveners’ Liaison Group (CLG). The request to the CLG is attached as Annexe A.

Recommendation
Members are asked to agree that the Committee will meet in Portree on 18 November as part of its deliberations at stage 2 of the Budget Process 2003-04, and to agree that the clerks will make final arrangements for proceedings on the day.

David McGill
19 September 2002
REQUEST BY FINANCE COMMITTEE FOR APPROVAL FOR THE COMMITTEE TO MEET IN PORTREE

Nature of request

The Finance Committee asks the Conveners’ Liaison Group to endorse its request to meet in Portree on 18 November as part of its consideration at stage 2 of the 2003-04 budget process.

Number of Participants

Committee Members 7
Other MSPs none
Standing Adviser 1
Clerking Team 4
Security 4
Official Report 3
Broadcasting 4
Public Information perhaps 1

Total 23

Justification

The Finance Committee has signalled previously that, as the annual budget process is of direct relevance to all communities in Scotland, it should seek to ensure the participation of as many people as possible in that process, by holding a meeting outwith Edinburgh every year at stages 1 and 2.

This year, at stage 1 of the process, the Committee met in Orkney. The meeting was split into two parts; in the morning, the Committee held workshops sessions with a number of local organisations and groups, after which Members reported back to the full Committee; and in the afternoon, evidence was taken from the Minister for Finance and Local Government. The meeting was very successful and the committee agreed that this format and approach provided a useful insight into the impact of national level expenditure decisions on local communities. The intention is to repeat the format at stage 2, by holding workshop sessions with local organisations in the morning, and taking evidence from the Minister for Finance and Public Services in the afternoon. At its meeting on 24 September, the Committee decided it would like to meet in Portree for this purpose.
To date, no other Committee has met in Portree and the Committee feels that meeting there would provide a useful contrast from Orkney, especially as there are claimed to be significant differences in the impact of budget decisions and allocations between the Western and Northern island communities. The level of local engagement with the national process will also be of particular interest to the Committee. The Clerks have been informed that the local Council is keen to set up events involving the Committee and local groups and organisations to ensure that the Committee is exposed to as many views and perspectives as possible, both on the budget process and on wider issues.

Cost
A maximum costing is set out in Appendix 1 based on members and staff travelling on Sunday 17 November, staying overnight, then travelling back on Monday 18 November.

The Conveners’ Liaison Group is therefore asked to endorse the request of the Finance Committee to meet in Portree on 18 November as part of the stage 2 budget consideration, and to approve in principle the costing as attached.

Des McNulty
Convener
Finance Committee
## COSTING OF PROPOSED COMMITTEE MEETING IN PORTREE

The costs to be met out of the committee travel and expenses budget and Committee Office budget are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (£)</th>
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<tbody>
<tr>
<td><strong>Accommodation</strong></td>
<td></td>
</tr>
<tr>
<td>7 @ £85 x 1 night =</td>
<td>595</td>
</tr>
<tr>
<td>5 @ £85 x 1 night =</td>
<td>425</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1020</td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td></td>
</tr>
<tr>
<td>Aberdeen to Portree – 3 x £214 =</td>
<td>642</td>
</tr>
<tr>
<td>Edinburgh to Portree – 5 x £190 =</td>
<td>950</td>
</tr>
<tr>
<td>Glasgow to Portree – 2 x £208 =</td>
<td>416</td>
</tr>
<tr>
<td>Tain to Portree – 1 x £250 =</td>
<td>250</td>
</tr>
<tr>
<td>Dalbeattie to Portree – 1 x £296 =</td>
<td>296</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3196</td>
</tr>
<tr>
<td><strong>Hall Hire</strong></td>
<td></td>
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<tr>
<td>Sunday 17 November – 3 x £13</td>
<td>39</td>
</tr>
<tr>
<td>Monday 18 November – 9 x £13</td>
<td>117</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>156</td>
</tr>
<tr>
<td><strong>Catering</strong></td>
<td></td>
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<tr>
<td>12 x £8 (Lunch and refreshments)</td>
<td>96</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4468</td>
</tr>
</tbody>
</table>

### Budgetary Information

Costs to Finance Committee budget (Cost Centre P11115):

- Committee Travel (SP414030) £3196
- Committee Expenses (SP414035) £1020
- Catering (SP 416215) £96

Costs to other budgets:

- Hire of Committee Locations (SP415010) £156

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1 Travel has been worked out on the basis of each member travelling separately by car from his or her home address at the prescribed rate of 39p per mile. As 3 members stay in the same area, there may be scope for sharing, so the figures here represent a maximum.