FINANCE COMMITTEE

AGENDA

5th Meeting, 2003 (Session 1)

Tuesday 25 February 2003

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

1. **Subordinate legislation:** Peter Peacock MSP to move (S1M-3873)- That the Finance Committee, in consideration of the draft Budget (Scotland) Act 2002 Amendment Order 2003, recommends that the Order be approved.

2. **Cross-Cutting Expenditure Reviews:** The Committee will consider a paper outlining possible topics for future cross-cutting expenditure reviews and will make recommendations to its successor Committee.

3. **Financial Scrutiny Review:** The Committee will consider a draft report on its Financial Scrutiny Review and a paper from the adviser on the budget process.


5. **Cross-Cutting Review (in private):** The Committee will consider a draft report on its cross-cutting expenditure review on Children in Poverty.

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

**Agenda item 1**

Motion S1M-3873 in the name of Andy Kerr, MSP

The Budget (Scotland) Act 2002 (Amendment) Order 2003 (SSI 2003/draft) FI/03/5/1

Scotland’s Budget Documents: Spring Budget Revisions

**Agenda item 2**

Paper by SPICe FI/03/5/2

**Agenda Item 3**

Paper by the Clerk FI/03/5/3

Paper by SPICe FI/03/5/3A

Paper by the Adviser FI/03/5/4

**Agenda Item 4**

Paper by the Clerk FI/03/5/5

**Agenda Item 5**

Paper by the Adviser PRIVATE PAPER
Motion S1M-3873 in the name of Andy Kerr MSP.

Lodged on 7 February 2003.

S1M-3873 Mr Andy Kerr: The Draft Budget (Scotland) Act 2002 Amendment Order 2003—That the Finance Committee, in consideration of the draft Budget (Scotland) Act 2002 Amendment Order 2003, recommends that the Order be approved.
Finance Committee  
Cross-Cutting Expenditure Reviews

Background

The Committee has long recognised the limitations of conventional budgetary systems that allocate resources on a functional basis. Members accepted the recommendations of Professor Arthur Midwinter that the Finance Committee should each year undertake an annual review of cross-cutting expenditure, as part of its scrutiny of the Executive’s future budget proposals. The Committee has, of course, already undertaken two such projects.

Members have expressed an interest in considering options for future reviews to recommend to the successor committee, while recognising that that committee cannot be bound by any recommendation. At the meeting on 3 December 2002, the committee agreed that, in future, reviews should be conducted one at a time and should be undertaken by the entire committee, as opposed to reporters. In addition, the Committee agreed that the topic of any review must be truly cross-cutting, being the responsibility of at least two departments. In addition, there was also some discussion as to whether analysis should be restricted to those expenditure streams which are wholly or mostly devolved. In certain circumstances, it may not be apparent which programmes feed into policy delivery until a review is underway, but it may be worth bearing in mind as a criterion in guiding the Committee’s decision.

Timetable

A review could begin in September 2003, with preparatory work being carried out over the summer recess, and aim to report by Spring 2004. This will allow time for the report to be published and for the Executive to make a formal response. Following that, it will also allow the Executive to consider what decisions it may wish to take in relation to budget allocations for 2005-06 in light of the Committee’s recommendations. In order to facilitate this, the Committee agreed that making a recommendation to the incoming committee would allow it to start the review as early as possible.

Recommendation

As with all other inquiry work, the Committee will be able to call on support from the clerks and SPICe, as well as considering appointing a special adviser and/or commissioning external research as required.

The Committee is therefore asked to decide which, if any, of the cross-cutting reviews set out below it wishes to recommend to its successor. A paper

1 Children in Poverty, and Regeneration as Delivered through the Voluntary Sector
containing draft remit, methodology and potential participants could then be produced for early in the new session. The Committee may also wish to rank two or three of the suggestions in order of preference for the incoming committee’s consideration.

Potential cross-cutting reviews

1. Drug Misuse

This topic was suggested as one of the original options for the committee, on 12 March 2002. The review would identify and examine a range of expenditure programmes, implemented by both the Executive and publicly funded bodies, relating to drugs and associated issues.

The Scottish drugs strategy was launched in March 1999\(^2\). While Ministerial responsibility is the preserve of the Deputy Justice Minister, the Executive recognises drug misuse as an issue that requires input from across the Executive departments. Policy co-ordination is the responsibility of the Health Department with guidance from the Scottish Advisory Committee on Drug Misuse and direction from the Ministerial Sub-committee on Tackling Drug Misuse. The committee meets every 3 months and membership consists of the Deputy First Minister (Chair), the Minister for Education & Young People, the Deputy Justice Minister, the Deputy Minister for Health & Community Care, the Deputy Minister for Social Justice and the Deputy Minister for Enterprise, Transport and Lifelong Learning. Updates to strategy action plans are agreed by the Cabinet.

National policy on tackling drug misuse recognises the need for multi-agency involvement. There are 22 Drug Action Teams (DATs) in Scotland, charged with coordinating action in their area in line with the four pillars of the national strategy - young people, communities, treatment and availability. DATs usually consist of senior representatives of the key partner agencies, including Local Authorities, NHS Boards, the Police, Prisons, Local Enterprise companies and voluntary organisations. The Scottish Executive provides support funding for DATs, but the initiatives they implement are funded by pooling resources from the existing budgets of the member agencies. Additional funding for tackling drug misuse may come from the Executive but this also would be channelled through the member agencies.

Every year, each DAT outlines what it is doing to achieve the aims of the national strategy by producing a ‘Corporate Action Plan’. These plans provide a useful source of information on expenditure but they are complicated by the fact that many DATs have now opted for a wider remit to cover alcohol (and also, in some instances, tobacco). In addition, many initiatives are ongoing or not given a specific cost, and may be marked as coming from ‘existing resources’ or ‘current budgets’.

There are also a number of national bodies with a specific remit of dealing with drug misuse, for example Scottish Drugs Forum, Scotland Against Drugs, the Scottish

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\(^2\) Scottish Executive (1999) *Tackling Drugs in Scotland: Action in Partnership*
Drugs Enforcement Agency and the Scottish Communities Against Drugs Fund (a joint project between the Scottish Executive and the Daily Record). Much work is also set within the wider agenda of tackling poverty and social exclusion.

If the Committee decided to review this area, it could build upon previous work commissioned by the Scottish Executive, the results of which were published in October 2000. The research identified 3 main areas of spend, i.) drugs specific ii.) drugs generic and iii.) expenditure consequences. It estimated total global expenditure on drug misuse in Scotland to be in the region of £330 million.

Given the number of agencies involved in delivering the Executive’s drug policy, it is difficult to draw up a definitive list of participants in any review. However, should the Committee recommend that this review be undertaken, it is likely to involve taking evidence from the following bodies: Scottish Advisory Committee on Drug Misuse, the Association of Drug Action Teams, Scottish Drugs Forum, the Scottish Drugs Enforcement Agency, the Association of Chief Police Officers, the Scottish Prison Service, the Association of Directors of Social Work, the Association of Directors of Education in Scotland, Communities Scotland and the NHS Confederation.

2. Economic development

Whilst economic development is sometimes seen as the province of the Enterprise Networks, the Executive’s “Framework for Economic Development” (FEDS) for example took a much broader view and indeed, at the time, - according to then First Minister Donald Dewar - FEDS was designed to “embrace activities across the spectrum of the Executive”. A “Joint Performance Team” (comprising the Enterprise Networks and the Executive) has set targets for the economy as a whole – comparing Scotland to other OECD countries. The overall progress indicator, standard of living (GDP per head), is a very broad-based one. Some of the sub-measures such as high growth firms (business starts) relate very directly to the Enterprise Networks, whilst others such as net migration are likely to be strongly affected by the activity of other parts of Scottish Executive activity.

Expenditure under a broad definition of economic development could include the following:

- The Enterprise Networks – Scottish Enterprise, Highlands and Islands Enterprise, and the Local Enterprise Companies
- Other expenditure by the ELL Department – for example Regional Selective Assistance, support for the Further and Higher Education Funding Councils and the Student Awards Agency for Scotland
- Transport expenditure
- Expenditure on aspects of the education system (The FEDS document highlighted the “skills required for lifelong learning and the use of ICT”)

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3 Report to the Ministerial Committee on Drug Misuse by the Policy Unit (2000) “Review of Executive Expenditure on Tackling Drug Misuse”
4 June 2002
• Expenditure to support certain sectors – for example tourism, agriculture and fisheries
• Expenditure on regeneration, for example via Communities Scotland and Social Inclusion Partnerships
• European Structural Funds
• Procurement practice – given the impact on Small and Medium Enterprises, the process of all procurement (e-procurement) as well as the “regional bundling” of electronic communications technology

A cross cutting analysis of funding support for economic development activities could aim to:

• Review the full range of public spending on economic development
• Discuss whether the different sources of support are being utilised in a joined up way to maximise impact on the targets set by the JPT
• Recommend a framework to make decisions on competing demands for resources

3. Youth Crime

The reduction of crime has been identified as one of the Scottish Executive’s priorities[^5] and one of the key outcomes identified for the purpose of measuring this is a reduction in the number of persistent young offenders. The Executive has highlighted youth crime as an example of a subject which must be addressed by several portfolios working together, stating that “new resources to tackle youth crime have been split between the Education and Young People, Social Justice and Justice Portfolios”[^6]. The chapters in *Building a Better Scotland* dealing with the Justice, Education and Young People and Social Justice Portfolios all make reference to youth crime.

The relevance of the subject to a number of portfolios was also highlighted in the Executive’s publication *Scotland’s Action Programme to Reduce Youth Crime 2002*.[^7] For example, it makes reference to “building closer integration between the youth justice system and an authority’s service planning for vulnerable children” and “making stronger connections between youth justice and education”.

A cross-cutting review looking at youth crime would identify and consider a range of expenditure programmes falling within various portfolios. It would also take account of the work of other agencies that have already looked at, and/or are currently considering, approaches to tackling youth crime. Existing work includes that of Audit Scotland[^8] which contains the results of the first comprehensive study to examine all of the services involved in dealing with offending by young people in Scotland. The report examines how young offenders, up to the age of 21, are dealt with in Scotland through the Children’s Hearing System and the adult Criminal Justice System and

[^6]: BABS, p.12.
[^7]: Scottish Executive (2002) *Scotland’s Action Programme to Reduce Youth Crime 2002*
[^8]: Auditor General for Scotland and the Accounts Commission (2002), *Dealing with offending by young people*
includes consideration of the effectiveness and efficiency with which human and financial resources are used within these systems. The study did not, however, consider activities aimed at preventing crime occurring or at services for young people who have not yet offended but who are at risk of doing so. Audit Scotland is tasked with monitoring progress in implementing changes.

Should it be chosen for recommendation, evidence could be taken from a number of sources, e.g. Ministers, Crown Office officials, voluntary organisations associated with children, local authorities, police, educationalists and those involved in the children’s hearings system.

4. Expenditure in Rural Areas

In its Stage 1 report last year, the Rural Development Committee stated that it “strongly requests that the Finance Committee considers an examination of the impact of overall Executive expenditure in rural areas as an issue for potential cross-cutting review”9. This request was reiterated in its Stage 2 report.

Such a review would identify a range of expenditure programmes in rural Scotland. These would include programmes which almost wholly benefit rural areas, such as agricultural support or rural development; mainstream programmes with additional allowances for rural needs such as those in local government and health allocations, and programmes which affect rural Scotland but where the degree of funding needs to be analysed e.g. Highland and Islands Enterprise and expenditure on tourism.

It will include programmes which:

- are specifically directed at rural areas, e.g. the rural stewardship scheme
- have additional allowances for rural needs, e.g. extension of small business rates relief to single owned rural petrol stations
- affect rural Scotland without a specific rural funding element e.g. tourism promotion

The review would be able to draw on previous reports by The Scottish Office, CoSLA and the Rural Forum. It could build on recent research, including the Rural Development Committee’s Inquiry into integrated rural development, the work of the National Rural Partnership, e.g. Implementing services in rural Scotland and work conducted by independent academics. The Committee might wish to take evidence from Ministers, public bodies, rural interest groups and academics. The Committee may wish to consider commissioning external research to identify the effects of certain general expenditure programmes on rural areas.

This subject would be feasible in the timescale set out above.

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9 Finance Committee 3rd Report 2002 (SP Paper 597)
5. Sustainable Development

Expenditure on sustainable development would be a suitable option for a cross-cutting review, as expenditure extends through all Executive departments and many agencies, NDPBs and other public bodies, such as health boards and local authorities. Given that expenditure on sustainable development cuts across all Executive departments, no subject committee can effectively monitor its implementation from a global perspective.

Sustainable development is a stated commitment of the Scottish Executive. There is a Cabinet Sub-Committee on Sustainable Scotland, chaired by the First Minister and also including the Ministers for Environment & Rural Development, Finance & Public Services, Enterprise, Transport & Lifelong Learning and Social Justice, among others.

Any cross-cutting review would be assisted by the publication of two Executive documents. Firstly, Meeting the Needs\(^ {10} \) which identified three main priority areas: resource use, energy and travel and set out a range of indicators and targets to monitor progress.\(^ {11} \) Second, following the Spending Review 2002, Building a Sustainable Scotland specifically states that the allocation of Spending Review monies was designed to contribute to sustainable development (although the document contains few actual spending details) and that action is required ‘across the whole Executive’.\(^ {12} \) Therefore, a review would have these two documents as a starting point in measuring the extent to which expenditure has matched stated commitments.

Should this review be selected, the incoming committee might be expected to take evidence from Ministers and agencies identified as having responsibility for delivering initiatives. Members might also consider taking evidence from organisations such as the Scottish Sustainable Development Forum, Forward Scotland, the Sustainable Development Commission, and other groups such as the CBI and Federation of Small Businesses.

It is understood that the Transport and the Environment Committee is likely to recommend to its successor committee that the implementation of the National Waste Plan (which is scheduled to be published by the end of February) be the subject of a future inquiry. In the event that that Committee accepts the recommendation and the incoming Finance Committee undertakes a review of sustainable development, there would need to be liaison between the committees to prevent duplication of work.

6. Sabhal Mor Ostaig

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\(^{10}\) April 2002

\(^{11}\) Scottish Executive (2002), Meeting the Needs...Priorities, actions and targets for sustainable development in Scotland

The Gaelic medium college on Skye, known as Sabhal Mor Ostaig may be a suitable subject for a cross cutting expenditure review because of the variety of funding streams which support it and the range of areas in which the college is involved. In addition to offering a number of higher education courses in Gaelic, the college is also heavily involved in supporting and taking forward local enterprise and regeneration projects and also has a national role in promoting Gaelic heritage. As a result it receives Scottish Executive funding from a variety of sources including SHEFC, SFEFC, HIE, the Department of Education, and European regional development and structural funds.

The funding of Sabhal Mor Ostaig is incredibly complex and many of the college’s income streams are the result of historic agreements between the Scottish Office and the college which have been honoured by the Scottish Executive following Devolution. A cross-cutting expenditure review into the Gaelic college could identify more clearly Scottish Executive funding streams available to Sabhal Mor Ostaig, the reasons for this expenditure and the amounts of funding available to the college to support its various activities.

Members have previously expressed an interest in examining the college in a cross-cutting review.

If selected, the incoming committee may wish to take evidence from the following bodies and individuals: Dr Norman Gillies, Director of Sabhal Mor Ostaig; the Finance and Central Services Department (responsible for implementation of European Structural Fund Programmes); the Further and Higher Education Funding Councils and Ministers for Enterprise and Lifelong Learning, Finance and Public Services, Education and Young People and Tourism, Culture and Sport.

SPICe Research Service
14 February 2003
Draft Report on the Financial Scrutiny Review

The Committee reports to the Parliament as follows—

INTRODUCTION

1. On 29 January 2002, the Finance Committee agreed to undertake a review of the financial scrutiny arrangements in place in the Scottish Parliament. The aim of the review was to identify practices and procedures that 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 was conducted as a series of individual discrete projects. This report details the outcome of those projects.

3. In recommending to the Consultative Steering Group (CSG) financial procedures which it felt should be adopted by the Parliament, the Financial Issues Advisory Group (FIAG) said “the objective of FIAG is to ensure the Scottish Parliament’s finances are managed in a way the is open, accessible and accountable to the people of Scotland”\(^1\). It is our hope and expectation that the progress that has been made towards this goal in the first session of the Parliament will be built on in the second to ensure that Scotland has a system of budgetary setting and scrutiny that engages all aspects of Scottish society.

BACKGROUND

4. FIAG was set up by the Secretary of State for Scotland in February 1998 to recommend rules and procedures for the handling of financial issues in the Scottish Parliament. Its report, which was wide ranging, covered aspects such as terminology, budgetary procedures, accounting arrangements, public accountability and audit arrangements. That report formed the basis of our review, with our focus being primarily on budgetary arrangements.

5. On 21 March 2002, the then Convener, Des McNulty, MSP, held an informal seminar with former members of FIAG in order to ascertain how well they considered that FIAG’s recommendations had been adopted. That meeting was

\(^1\) FIAG, page 3
extremely informative and we are grateful to the participants for the time they took in contributing to the discussions. Following the seminar, a report back to the Committee was made and that report is reproduced at Annexe A.

6. The review also built on external research carried out for the Committee in 2001 by Arthur Midwinter and Jim Stevens of Strathclyde University. That research, entitled *The Real Scope for Change* (SP Paper 322), contained several recommendations in relation to the way in which the Parliament conducts its scrutiny of the Executive’s expenditure proposals. The adoption and implementation of those recommendations were subsumed into this review.

7. Finally, Professor Midwinter was appointed as Standing Adviser to the Committee in February 2002. His advice and assistance have been invaluable to our work since that time and we are indebted to him for his efforts on our behalf.

THE REVIEW

8. In addition to the individual projects which constituted the review, the Committee undertook other work which, although not formally part of the review, was complementary in its aims of opening up the process and making Executive expenditure decisions more accessible and transparent.

*Outcome Budgeting*

9. The Committee commissioned external research into moving to outcome budgeting and the results of that research were published on 16 May 2002. A consultation exercise on the research was then undertaken and several public organisations submitted responses. The Committee has subsequently discussed the issue of outcome budgeting with the Executive and we recommend to the incoming Finance Committee that these discussions are continued.

*Cross-cutting expenditure reviews*

10. As most scrutiny of expenditure proposals by subject committees is carried out on a portfolio or departmental basis, we were concerned that expenditure in pursuit of policy objectives which cut across more than one department was not being scrutinised in any systematic or strategic way. In order to address this situation, we undertook two reviews of expenditure geared to meet cross-cutting policy objectives; one into Children in Poverty and one into Regeneration as delivered through the Voluntary Sector. The report on the Voluntary Sector review was published on 5 February 2003 (SP Paper 762) and is available on the Committee’s pages on the Parliament’s website (http://www.scottish.parliament.uk/official_report/cttee/finance.htm).

11. We believe that the reviews have been successful in systematically examining expenditure on an area of policy that would otherwise have been scrutinised in a more piecemeal way. We recommend to our successor committee that similar reviews are undertaken in future.

*International comparisons*

12. In order to discover whether there are lessons that can be learned from international experience in budget setting and budget scrutiny, we commissioned
external research entitled “Budget Setting and Financial Scrutiny: Experiences in Devolved/ Regional Governments”. The research, carried out by Public Futures, a business providing consultancy and research services to the public sector, was led by Professor Colin Talbot of the University of Glamorgan. We touch on the results of that research in paragraphs 36 and 37 below.

Financial Memoranda

13. At an early stage of the review, the Parliament’s scrutiny of the financial implications of draft legislation was identified as an area in which improvements could quickly be made. There was a perception, reflected strongly in the contributions of the former members of FIAG, that the Parliament needed assistance in this area to ensure that its consideration of this aspect of draft legislation is rigorous. In order to address this problem, we decided to take a more active role in scrutinising the potential financial consequences of Bills as they are introduced into the Parliament.

14. The Parliament’s Standing Orders (Rule 9.3.2) require a Financial Memorandum to be published to accompany most Bills introduced and oblige those committees designated by the Parliamentary Bureau as the lead committee on a Bill at Stage 1 of the legislative process to report to the Parliament on the Memorandum. A review of recent lead committee reports at Stage 1 revealed that the level of scrutiny of Financial Memoranda was inconsistent and was often not undertaken at all.

15. We decided, therefore to appoint an adviser with the specific task of identifying issues and organising our scrutiny of Memoranda. In July 2002, Ian Doig, the Director of the Chartered Institute of Public Finance and Accountancy (CIPFA) in Scotland was appointed to the role. Since that time, we have undertaken a thorough examination of the Financial Memoranda of four Executive Bills the Criminal Justice (Scotland) Bill, the Water Environment and Water Services (Scotland) Bill, the Mental Health (Scotland) Bill and the Homelessness etc. (Scotland) Bill and one Committee Bill, the Commissioner for Children and Young People (Scotland) Bill.

16. Our examination of each of those Bills has introduced a level of scrutiny into the process that was lacking previously and has ensured that the Parliament is in full possession of relevant financial information in advance of taking decisions on whether to agree to the general principles of Bills. Several of our reports have been very critical of the information available and our overall approach has been to initiate a general improvement in the quality of Memoranda. Those reports are available on the Committee’s web pages.

17. In response to the Committee’s repeated concerns over the content of Memoranda, the Executive has recently, in consultation with our clerks and adviser, revised its guidance to Bill Teams in relation to the preparation and presentation of financial information. That guidance was recently signed off by Ministers and is published on the Executive’s website at http://www.scotland.gov.uk/library5/finance/spfm/spfma-33.asp. The guidance will, in our view, lead to greater consistency and better quality financial information being put before the Parliament. We are grateful to the Executive for the
opportunity given to our officials to contribute to this process. **We are, however, committed to continuing to monitor Financial Memoranda and recommend that the incoming committee maintains this level of scrutiny.**

**Transparency**

18. The issue of transparency is one that underpins all of our considerations in relation to the budget. In order to ensure that proper scrutiny of spending allocations and decisions can take place and that both the Parliament and the people of Scotland are involved in the process, decisions require to be clear and open. The system of revisions to the Budget Act in force having to be made by subordinate legislation is one that we support, and we welcome the fact that the process ensures that this Committee is involved in the making of amendments to existing authorisations.

**Spending Announcements**

19. We have, however, been perplexed on occasion by spending announcements made by the Executive where it is unclear from which budget head or heads the required funding will be payable. In order to test the degree of the problem in identifying funding sources, we examined a random sample of twenty Executive spending announcements. The announcements covered spending programmes under the following headings: Education and Young People; Enterprise, Transport and Lifelong Learning; Environment and Rural Development; Health and Community Care; Social Justice; and Sport, Culture, and Tourism.

20. The press releases making the spending announcements were subjected to two levels of scrutiny. Initially, they were examined to see whether the sum of money mentioned was for a particular scheme, initiative or programme and then, whether the release stated where the money had come from, for example, Budget consequentials or Spending Review money.

21. If the release did not state the source of the funding, further scrutiny was carried out to see whether the money announced could be traced back to any of the Scottish Executive’s budget documents for 2001-02, i.e. the Budget (Scotland) Act 2001, and the November and Spring budget revisions. The table in Annexe B summarises the press releases that were examined and the level of detail they provided.

22. In terms of whether the releases stated whether the money was being allocated to a specific scheme, initiative or programme, this was the case in fourteen of the twenty releases.

23. As can be seen from the table, however, only four of the releases stated explicitly where the money had come from. In only three of the remaining sixteen cases could money be traced back to the budget documents and in two of these cases, the amount of money involved changed between the November and Spring revisions.

24. We are therefore concerned about the gap between spending announcements and the link to existing budgets and raised the matter with the
Deputy Minister for Finance. Officials in the Finance and Central Services Department at the Scottish Executive subsequently held discussions with colleagues in the Executive’s press office and written guidance will shortly be circulated to press officers in an attempt to ensure that the source of finance for new spending announcements is clear. **We welcome the clarity that this will bring.**

**Budget Transfers**

25. In its report, FIAG recommended that the Executive should, in certain circumstances, have the ability to move money between departmental budget heads in the course of a financial year. This was incorporated in a subsequent written agreement between ourselves and the Executive. That agreement noted FIAG’s recommendation that the budget transfer system should be reviewed in 2002. Our feeling at that time, however, was that there had been little scope for testing the system and a review has not, so far, been undertaken. **We therefore suggest that our successor Committee undertakes this review during the course of the next parliamentary session.**

**Targets and objectives**

26. Ministers have repeatedly stressed to the Finance Committee that they wished to move from a budgetary system based on financial inputs to one with a greater emphasis on outcomes and results. When BaBS was published, the Minister for Finance and Public Services presented the document as “an improved framework of financial management and performance management,” which included strategic aims, objectives and targets for each department. The Minister stated his belief that the new approach would:

> “….. increase the efficiency of our spending, enhance the way we report our finances and performance to the public, and above all ensure that our spending has maximum impact in meeting our priorities”

27. The setting of targets and objectives has brought a more formal and rigorous approach to priority setting. In the Draft Budget of 2000, the Executive’s key priority was promoting social justice by tackling disadvantage and deprivation, but also included at that time were:

- improving infrastructure;
- creating a competitive economy; and
- modernising public services.

28. Five tests for spending decisions were announced in AER 2002, and these were targeting priorities; measuring outputs; assessing benefits; monitoring performance; and promoting best value. The priorities for targeting were:

- improving health;

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2 SP Paper 155

3 Foreword
• improving education;
• reducing crime;
• strengthening transport; and
• strengthening the economy.

29. Finally, the First Minister, in his foreword to *The Scottish Budget 2003-04: Annual Expenditure Review of the Scottish Executive* (2002, p.5) further stated that the Executive’s:

“every decision and action will be measured against the twin themes we have set of closing the opportunity gap and conserving and sustaining the environment.” (Foreword: The Scottish Budget 2003-04).

30. The Committee welcomed the development of a more rigorous approach to setting priorities for the Scottish Budget, but we remain concerned that the Executive may have too many priorities to target resources in a meaningful way. Whilst the attraction of the “objectives – allocations – results” approach to resource allocation is recognised, there are a number of caveats that need to be made. Firstly, the terms “output” and “outcome” tend to be used interchangeably, even though they are distinctive concepts. Outputs refer to the products resulting from budget allocations – such as numbers of teachers or police officers; kilometres of roads maintained; new houses built etc.; whilst outcomes refer to the benefits or results from expenditure, such as educational attainment, crime levels or accident rates. Many of the targets identified in BaBS and the Draft Budget refer to outputs rather than outcomes, even where the latter term is used. Secondly, many of the targets used are operational measures of efficiency, rather than outcomes. A good example of this is the targets for the Student Awards Agency, which relate almost wholly to times for application processing, dealing with complaints, or responding to telephone enquiries. By contrast, Health provides good examples of outcomes, using reductions in deaths from specific conditions, but is unable to link these outcomes to budget allocations or outputs.

31. Due to the fact that, as we have noted elsewhere, moves to outcome budgeting are long term and problematic, the immediate priority is to further develop the current system to ensure that:

• new spending proposals are identified and costed;
• the outputs expected are stated; and
• their contribution to wider cross-cutting priorities is assessed.

32. We therefore recommend that the incoming Finance Committee addresses these issues as a matter of some urgency in order to build on the improvements already made.
Budget documents

33. The quality of the information that the Executive has provided in its budget documents has improved over the lifetime of the Parliament. In their earlier Stage 1 and 2 reports, the majority of the subject committees’ comments related to how they felt they were not given adequate information to competently scrutinise the Executive’s spending plans. Committees expressed difficulty in linking targets and objectives with proposed spending, and highlighted concerns about the level of information provided. They also requested clearer language and clarification on some terms, especially after the introduction of Resource Accounting and Budgeting (RAB). The Executive’s responses noted these concerns, and undertook to review the way their documents were presented. We note that, in later subject committees’ budget reports, fewer presentational queries have been raised, as the Executive has provided this higher level of information.

34. The quality of the information in relation to targets and objectives remains a concern and we recommend that the incoming Committee has regard to the research reproduced at Annexe C in continuing to seek improvements in this area.

Consultation

35. The issue of consultation is one that the Committee has taken seriously. The whole tenet of CSG and FIAG was that the Parliament should operate in partnership with the people of Scotland. The budget process was specifically designed with this in mind and the expectation that subject committees would take evidence from service providers and customers as part of their consideration of Departmental plans has been, in practice, a feature of the process from the start.

36. As part of this review of the level and quality of scrutiny arrangements, we took the view that consultation on the overall direction of the budget was relatively weak. The announcement of policy priorities by the Executive allowed us to take a more holistic approach to civic involvement in the budget, examining how the budget would deliver these priorities. The Committee sought formal views on budget plans from key individuals and organisations and reported its findings as part of our reports at Stages 1 and 2. That exercise has proved invaluable in improving the scrutiny of the budget and is one we commend to our successor committee.

37. On another level, we have consistently sought to examine the effect of national objectives and spending plans at the local level. It is, in our view, crucial to ensure that the scrutiny process encompasses not only the allocation of funds to meet objectives or to delivery agencies, but the effects of these mechanisms on the ground. To that end, we have met at different times in Aberdeen, Perth, Kirkcudbright, Kirkwall and Portree. These meetings have allowed us to get feedback from bodies such as local councils, health boards, tourist boards and voluntary organisations on the pressures they operate under and the level of engagement with the process they enjoy. These sessions have been enlightening for us and, we believe, have met with a favourable reaction from participants. We recommend that such sessions become an established part of the scrutiny process in the Parliament.
Comparative Research

38. At the outset of the review, we commissioned research into budget setting and financial control in other devolved assemblies and governments around the world. Six countries (Australia, Belgium, Italy, New Zealand, Spain, and the USA), with devolved parliaments or assemblies were selected and research was carried out towards the end of 2002. The results of the research were published by the Committee in February 2003.

39. We do not intend to repeat the contents of that report here. It is worth stressing however that, despite the relative youth of the Scottish Parliament, the systems in place in Scotland give the Parliament and the people of Scotland a greater say in budgetary matters than is afforded elsewhere. That is a testament to the work done by FIAG and CSG in putting the procedures in place. However, we are firm in our belief that much else can be done in the way of improvement. In this, we are encouraged by the acknowledgement by Executive Ministers that the current process is far from perfect and we have recommended to our successor committee that a more fundamental review is undertaken, building on the progress already made.

Budget Guide

40. At the meeting on 24 September 2002, it was proposed that SPICE be commissioned to produce a guide to the Scottish budget. A draft version of this is reproduced as Annexe D.

CONCLUSIONS

41. We believe that our Financial Scrutiny Review has brought benefits to the Parliament, and to the people of Scotland, in the way that it approaches its consideration of the Executive's budget and other financial matters. Working in partnership with the Executive, we have ensured that the way in which spending plans are presented to the Parliament is much more accessible and transparent than was the case in the early life of the Parliament. The level of clarity apparent in budget documents has been greatly improved and this has facilitated a greater level of scrutiny. In the first two years of the Parliament, many of the comments of the subject committees in their reports to us centred on the presentation of the information. Comments of that nature are now relatively rare, reflecting the advances that have been made.

42. The improvements in relation to the quality of financial information supplied to accompany draft legislation are, in our view, significant. We welcome the guidance that the Executive has published in an attempt to improve the quality of that information. We expect that the legislative process in the next session of the Parliament will be characterised by a much more robust approach to the financial scrutiny of legislation, thus avoiding some of the implementation problems that have been experienced this session.

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4 SP Paper XX
43. Despite these gains, we recognise that much work remains to be done. We accept that the Financial Scrutiny Review is not an end in itself, but a mechanism by which firstly, relatively minor improvements could be made and secondly, more fundamental issues of concern could be raised. The Review has set the groundwork for a more comprehensive appraisal of the systems and procedures in the context of the improvements set out here.

44. To that end, we have already agreed with the Minister for Finance and Public Services that our respective officials and our adviser will meet to discuss a potential overhaul of the system. The external research papers on Outcome Budgeting and arrangements in other institutions, together with the results of this review, mean that that overhaul will be undertaken from a position of relative strength.

45. Subject committees and individual members have persistently referred to repetition in the current process and to other frustrations. We agreed with the Executive in November that, given the impact of the elections this year, the AER would not be produced in March. That allows us the opportunity to see how this impacts on the annual process and may inform thinking on possible amendments to future budgetary cycles.

46. The conclusion of this review means that the time is ripe for a more systematic appraisal of the budgetary process and we commend this report to the Parliament.
Annexe A

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. F I A G A N D P F A
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. T H E E X P E R T S’ P E R S P E C T I V E
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.
Section 1

Financial Issues Advisory Group and the Public Finance and Accountability (Scotland) Act 2000

FIAG

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. FLAG 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
## Annexe B

### TRACING THE EXECUTIVE’S SPENDING COMMITMENTS

<table>
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<th>Press Release</th>
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<th>Identified Source?</th>
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<td>Innovation Grants Programme</td>
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<td>Drugs-free future</td>
<td>8/2/02</td>
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<td>Allocated to Lloyds TSB's Partnership Drugs Initiative</td>
<td>Budget consequentials for drugs initiatives for young people (allocated over 3 years)</td>
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<td>Young Scientists</td>
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<td>£5m</td>
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<td>Capital Modernisation Fund</td>
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<td>Rail Freight Grant</td>
<td>5/2/02</td>
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<td>Freight Facilities Grant Scheme</td>
<td>Last Spending Review announced £36m funding for 3 years - traced this in budget docs</td>
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<td>Venture Capital Investment Fund</td>
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<td>Rural Strategic Support Fund</td>
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<td>£20m</td>
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<td>£86m pre-budget consequentials</td>
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<td><strong>SOCIAL JUSTICE</strong></td>
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<td>Better Neighbourhood Fund</td>
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<td>£17.6m</td>
<td>Better Neighbourhood Services Fund</td>
<td>£90m over three years, from the 2000 Spending Review</td>
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Annexe C

PRESENTING FINANCIAL INFORMATION IN SCOTTISH EXECUTIVE DOCUMENTS:

REVIEW OF PRACTICE

Purpose
In the Financial Scrutiny Review scoping paper presented to Committee on 26 March 2002, attention was drawn to the lack of a consistent application of the FIAG recommendations on identifying targets and outputs in relation to expenditure. The paper emphasised that, for some committees, it had proved impossible to determine output and performance information from the budget documentation. The purpose of this paper is to provide background information for the Financial Scrutiny Review.

The Finance Committee has noted some progress in the budget documents for the financial year 2003-04. These improvements do not, however, negate the points noted in this paper. For example, the Justice chapter in this year’s AER 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 age group, 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.

FIAG Recommendations\(^5\) (CSG, 1998)

- 16. each Budget proposal should be accompanied by a narrative (ie a financial memorandum) explaining the objectives which would set out proposed outputs and expected outcomes; and

- 17. Budgets should be disaggregated to lower level than that required by the Parliament for the purposes of financial control.

To determine the consistency of approach, this paper examines the practice in four departments: Health and Community Care; Enterprise and Lifelong Learning; Education and Children; and Justice. These departmental budgets together account for over half of the Scottish Budget (approximately £12000m).

\(^5\)An online copy of the report is available @ http://www.scotland.gov.uk/library/documents-w5/rcsg-26.htm
Budget information for each of the four departments was examined in relation to FIAG’s recommendations with regard to the explanation of objectives, proposed outputs and expected outcomes in budget documentation. The documents reviewed were those for the last complete annual budget cycle, namely the Annual Expenditure Report (published in Spring 2001), The Draft Budget (published in Autumn 2001) and Scotland’s Budget Documents for 2002-03 (published in the January 2002).

Each of these budget documents has a different purpose. The AER and the Draft Budget are the main documents used by subject committees to scrutinise departmental spending plans. These are presented by ministerial portfolio. The publication Scotland’s Budget Documents accompanies the Budget Bill introduced in the Scottish Parliament and is, in contrast with the other two publications, presented by Scottish Executive department rather than by ministerial portfolio.

KEY AREAS OF PROGRESS AND INCONSISTENCY
Areas of inconsistent representation have been identified. Examples are provided for each in the annexes.

- There has been some progress towards the inclusion of targets for outcomes in budget documents. There are also some references to relevant business plans and annual reports containing targets and monitoring data. However, there is still no consistent approach across departments to the presentation of information in the budget documents. (See Annex 1)
- Inconsistencies remain both within and between documents with each department representing budget information differently and budget headings altering between documents and within chapters in a single year. (See Annex 2)
- There are examples within the documents of tables showing targets and outputs however, these are often not explicit either in terms of which targets are being referred to or where money allocated to targets is to come from in the budget. (See Annex 3)
- Across documents, a key problem is the lack of a systematic link between objectives, budget outputs and outcomes. Within the AER and Draft Budget documents, information is presented with some consistency. Even this information is limited. (see Annex 4)
- In addition, much of the spending carried out from these budgets, is by non-Executive agencies and local government. This poses additional difficulties when attempting to trace spending and to match outcomes with targets. (See Annex 5)
- Indications of performance against past targets are not consistently represented in the budget documents. (See Annex 6)
- Scotland’s Budget Documents 2002-03. Contain only financial information and not performance information as they are regarded as control documents rather than as the basis for the process of financial scrutiny.

COMMENT

- Though this paper highlights inconsistencies in Scottish Budget documentation it is important to recognise that specifying and monitoring results is difficult. There are no examples of OECD member countries having adopted results based accountability approaches to budgeting which have successfully
managed to link planned spending with outputs.\textsuperscript{6} It is important to recognise that not all departments can present outputs equally easily because of the nature of the outputs they are attempting to measure. Certain outputs lend themselves more easily to being quantified.

- Consistency over time may be more important than consistency between departments. Even then, there may be good reasons for changing the definition or the focus of targets to respond to changes in the way in which budgets are calculated or to reflect alterations in spending programmes and priorities. There are also limits to the value of high level qualitative targets which must be recognised.

Elizabeth Davies  
SPICe Research Service  
17 October 2002

\textsuperscript{6} Blondal, J.R “Budgeting in Sweden” in OECD Journal on Budgeting vol. 1 no. 1 pp27-58
Annex 1

There has been some progress towards the inclusion of targets for outcomes in budget documents. There are also some references to relevant business plans and annual reports containing targets and monitoring data. However, there is still no consistent approach to the presentation of information in the budget documents.

1. The following extract from the Health budget offers an example of reference being made to other reports and publications outwith budget documents, which relate to targets.

**AER 2002-03 (p. 94)**

“The performance targets listed at the end of each section are those contained in Working Together for Scotland: A Programme for Government. As the performance assessment framework announced in Our National Health: A plan for action, a plan for change develops it will influence the objectives and targets on which the Health Department is held to account. This will allow the targets reflected in this report to evolve.”

Other programmes and documents are mentioned in the Health budget in relation to Health Boards and NHS Trusts.

**AER 2002-03 p. 106**

“The Health Service in Scotland is currently working to a target of reducing the all-Scotland inpatient/day case waiting list to 75,000 by the year 2002:

- Health Boards and NHS Trusts have agreed individual targets which they will meet as their contribution to the national figure
- Scottish Health Statistics 2000 includes information on waiting times, cancellations rates, complaints and ambulance response times. Each Health Board and NHS Trust also produces its own annual report”

2. Though elaborating on the information provided in the budget documents, the targets outlined in, Working Together for Scotland: A Programme for Government, remain at a general level and are not linked to specific quantitative measures. This is not necessarily a failing as detailed quantitative measures are not always appropriate in assessing whether objectives have been met.

3. The following extract is an example of the kind of targets outlined in Working Together for Scotland: A Programme for Government.

**2.6 Health and Community Care**

**Improving health**

*We will:*

- Encourage every school to become a health-promoting school

---

7 An online version is available @ [http://www.scotland.gov.uk/library3/government/pfg-00.asp](http://www.scotland.gov.uk/library3/government/pfg-00.asp)

8 A online version is available @ [http://www.scotland.gov.uk/library3/health/ong-h-00.asp](http://www.scotland.gov.uk/library3/health/ong-h-00.asp)
• Provide fresh fruit in nursery schools
• Provide free toothbrushes and toothpaste for 100000 children in Scotland
  Develop a strategy to tackle alcohol misuse

**Meeting specific needs**
We will:

• Continue to improve services for older people, both in the NHS, and in other care settings
• Continue to assess the provision of long term care
• Improve cancer services by launching our National Cancer Plan
• Ensure maternity services meet women’s needs better through our Framework for Maternity Services in Scotland
• Improve the way vulnerable people are cared for through our new Commission for the Regulation of Care

4. The Specific Grants section of the Education and Children budget in the 2002-03 AER (p.66) offers another example of the way in which targets and outputs are presented in Budget Documents.

**The Excellence Fund for Schools** - £515m over 2000-03 to raise standards in schools and promote social inclusion. There are 9 strands to the Fund including the **Inclusion Programme** to promote inclusion and equality for children with SEN, the **Early Intervention Programme** to raise standards in literacy and numeracy in the early years of primary school, and initiatives to support **Alternatives to Exclusion**

<table>
<thead>
<tr>
<th>£m</th>
<th>2000-01 estimate</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellence Fund</td>
<td>129.6</td>
<td>186.2</td>
<td>187.7</td>
<td>218.25</td>
</tr>
<tr>
<td>Special Educational Needs</td>
<td>4.4</td>
<td>5.4</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Gaelic in Education</td>
<td>2.6</td>
<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Social Work Services</td>
<td>2.7</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

**Excellence Fund**
The Excellence Fund provides education authorities with resources to pursue a number of improvements to the school system which the Executive considers are particularly important in increasing the benefit which children obtain from their experience of school.
<table>
<thead>
<tr>
<th>Programme</th>
<th>2000-01 estimate (£m)</th>
<th>Description</th>
<th>Key outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGfL: Provision of modern infrastructure for schools</td>
<td>31.4</td>
<td>Funding local authorities to:</td>
<td>Figures from October 1999 show that the ratio of pupils to modern computers is around 9:1 in secondary schools and 28:1 in primary schools. Local authority estimates for October 2000 are that 79% of secondary school pupils and 29% of primary school pupils have their own e-mail addresses. 100% of secondary schools and 81% of primary schools have access to the internet.</td>
</tr>
<tr>
<td>Early Intervention</td>
<td>13</td>
<td>Funding from the Excellence Fund to education authorities (EAs) to support key commitments to raising standards in schools and to promoting social inclusion</td>
<td>Grants to individual EAs to assist children in primary 1 and 2 master the key skills of reading, writing and numeracy.</td>
</tr>
<tr>
<td>Support for teachers 5-14</td>
<td>4</td>
<td>Funding from the Excellence Fund to EAs to support key commitments to raising standards in schools and to promoting social inclusion</td>
<td>Better directed in-service training as part of teachers CPD.</td>
</tr>
<tr>
<td>Reducing class sizes</td>
<td>16</td>
<td>Funding from the Excellence Fund to assist EAs to reduce class sizes in Primary 1 to 3 classes</td>
<td>Class sizes in P1 and P2 to be 30 or below by 1 August 2000.</td>
</tr>
<tr>
<td>Classroom assistants</td>
<td>20</td>
<td>Funding from the Excellence Fund to assist EAs to employ classroom assistants in primary schools</td>
<td>Returns show that EAs are already employing 1500 classroom assistants under the Excellence Fund. The goal is 5,000 by March 2002.</td>
</tr>
<tr>
<td>New Community Schools</td>
<td>8</td>
<td>Funding local authorities to set up New Community Schools pilot projects (2 per council area)</td>
<td>62 New Community Schools projects involving over 400 schools will be up and running by April 2001.</td>
</tr>
</tbody>
</table>
Objectives and targets

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit</th>
<th>1999-00 (actual)</th>
<th>2000-01 (forecast)</th>
<th>2001-02 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase number of classroom assistants by 5000 by 2002</td>
<td>Assistants</td>
<td>1,614</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Reduce class sizes in P1-P3 to below 30 by 2001</td>
<td>% classes below 30</td>
<td>89</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>New Community Schools pilot projects</td>
<td>Number of projects</td>
<td>37</td>
<td>47</td>
<td>62</td>
</tr>
<tr>
<td>Schools with internet email access</td>
<td>%age</td>
<td>57</td>
<td>68</td>
<td>100</td>
</tr>
<tr>
<td>Ratio of primary school pupils to modern computers</td>
<td>Ratio</td>
<td>28:1</td>
<td>20:1</td>
<td>7.5:1</td>
</tr>
<tr>
<td>Ratio of secondary school pupils to modern computers</td>
<td>Ratio</td>
<td>9:1</td>
<td>7:1</td>
<td>5:1</td>
</tr>
</tbody>
</table>

5. In the section dedicated to specific grants the excellence fund for schools offers an example of the way in which planned expenditure can be linked to specific programmes. As the example above shows, planned spending is shown in relation to specific targets and output measures are provided.
Annex 2

Inconsistencies remain both within and between documents, with each department representing budget information differently and budget headings altering between documents and within chapters in a single year.

1. In the Education and Children budget the Level 2 Broad Categories of Spending in the overall budget for Children and Young People does not have a budget line for social work training in the AER (p.62) (though it is listed in the text associated with the table) but does have a line in the Draft Budget (p.65).

2. The budget lines under Level 3 differ between the AER and the Draft Budget. For example, in the AER, (p.54) one level 3 heading is schools, standards and improvements This heading encompasses spending on:
   - Initial teacher Education
   - CPD of teachers
   - Tackling improvements to school buildings
   - Research (covering both education and other aspects of the work of the Department).

3. In the Draft Budget (p.52) this level 3 heading has become, Teachers and Schools. This heading encompasses similar but not identical funding areas:
   - Review of ITE
   - Development of a framework for CPD of teachers
   - Tackling improvements to school buildings

4. Similarly other level 3 budget lines which appear in the AER are slightly but significantly altered in the draft budget making the tracking of spending on stated objectives difficult.

5. In the following example from the Enterprise and Lifelong Learning Budget, level 3 headings remained the same, but there were changes in the way in which figures were calculated between the publication of the AER and the Draft Budget. Difficulties in tracking changes between the documents were lessened by the inclusion of footnotes and explanatory text. A similar method of footnoting changes could be used to explain changes to level headings.
AER 2002-03
Table 4.2 More detailed categories of spending (Level 3)

<table>
<thead>
<tr>
<th>£m</th>
<th>2000-01 plans</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awards/Fees</td>
<td>183.0</td>
<td>199.1</td>
<td>213.0</td>
<td>230.3</td>
</tr>
<tr>
<td>Loan subsidy to students</td>
<td>115.6</td>
<td>124.6</td>
<td>124.6</td>
<td>124.6</td>
</tr>
<tr>
<td>Resource Budget Additions for Student Loans</td>
<td>87.3</td>
<td>156.5*</td>
<td>99.3</td>
<td>99.3</td>
</tr>
<tr>
<td>SAAS Administration Costs</td>
<td>3.8</td>
<td>4.3</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Student Loans Company Administration</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>392.4</strong></td>
<td><strong>487.2</strong></td>
<td><strong>444.0</strong></td>
<td><strong>461.5</strong></td>
</tr>
</tbody>
</table>

Note
- Budget Documents for 2001-02 include a resource provision of £56.8m for bad debts. It now considered that this increase is not required and will be corrected in a budget revision in 2001-02

Draft Budget 2002-003
Table 4.2 More detailed categories of spending (Level 3)

<table>
<thead>
<tr>
<th>£m</th>
<th>2000-01 plans</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awards/Fees</td>
<td>183.0</td>
<td>215.6</td>
<td>226.6</td>
<td>244.9</td>
</tr>
<tr>
<td>Loan subsidy to students (1)</td>
<td>115.6</td>
<td>97.1</td>
<td>99.7</td>
<td>98.8</td>
</tr>
<tr>
<td>Resource Budget Additions for Student Loans</td>
<td>87.3</td>
<td>99.7</td>
<td>99.3</td>
<td>99.3</td>
</tr>
<tr>
<td>SAAS Administration Costs</td>
<td>3.8</td>
<td>4.5</td>
<td>4.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Student Loans Company Administration</td>
<td>2.7</td>
<td>4.9</td>
<td>25.2</td>
<td>5.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>392.4</strong></td>
<td><strong>421.9</strong></td>
<td><strong>435.5</strong></td>
<td><strong>453.0</strong></td>
</tr>
</tbody>
</table>

Note
(1) The revised plans for Loan Subsidy to students for 2001-02 onwards have been reduced by £10m each year to reflect a recent review of the provision for estimated future write-offs for non-recovery and the difference between the cost of capital charge and the interest earned over the whole life of the loan. The review indicated that the plans should be at a rate of 5% less than previously calculated.
Annex 3

There are examples within the documents of tables showing targets and outputs. However, these are often not explicit either in terms of the targets being referred to, or where money allocated to targets is to come from in the budget.

1. Table 3.11 in the draft Budget 2002-03 summaries the key programmes in the Education and Young Children budget which are financed through central government programme expenditure and identifies the relevant targets and key outputs.

<table>
<thead>
<tr>
<th>Programme</th>
<th>2001-02 estimate</th>
<th>Relevant Targets</th>
<th>Description</th>
<th>Key outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Fund Trust</td>
<td>£2.2m</td>
<td>SJ4 SJ17</td>
<td>The Family Fund Trust is a charitable organisation that provides grants to families with severely disabled children to allow the family to continue to care for their child at home.</td>
<td>At least 8,000 grants to support families with severely disabled children.</td>
</tr>
</tbody>
</table>

Similar tables appear for other key programmes in this budget such as Secure Accommodation, Invest to Save Young Offenders and International Education.

2. Though this table shows targets and outputs, it is not clear to which document the table refers when citing “SJ4” and “SJ17”. Presumably these targets refer to the Social Justice Annual Report 2001⁹, but this is not specifically stated.

In that report, SJ4 and SJ17 are as follows:

“4: All of our children will have access to quality care and early learning before entering school

17: Increasing the proportion of people with learning disabilities able to live at home or in a 'homely' environment”

⁹ Report available online @ http://www.scotland.gov.uk/library3/social/sjar-00.asp
3. It is also important to remember that the achievement of targets such as SJ4 and SJ17 are not exclusively tied to the Family Fund Trust but are linked to other areas of the budget.

4. It is also unclear from table 3.11 whether the key outputs are those which have been achieved, or those which were expected to be achieved.
Annex 4

Across documents, outputs are noted without reference to inputs and inputs without reference to outputs making the tracking of spending difficult. Within the AER and Draft Budget documents, information is presented with some consistency, however, even this information is limited.

1. The Health and Community Care budget for 2002-03 was £6126 million. General targets in the Health and Community Care budget as shown in the AER 2002-03 (p. 90) are only linked with the figure for the total budget:

- Improving health to close the health gap between the rich and poor
- Improving access to services – reducing waiting and making the patient’s ‘journey of care’ easier, quicker and safer.
- Starting to implement the aims and priorities in Our National Health: A plan for action a plan for change.

2. However details of outturn and planned capital and resource spending at level 2 are also provided AER 2002-03 (p.93). Further details of individual programmes are provided in the relevant section.

<table>
<thead>
<tr>
<th>Table 5.1 in AER 2001-02 Broad Categories of Spending (level 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Hospital, Community and Family Health Services</td>
</tr>
<tr>
<td>Other Health Services</td>
</tr>
<tr>
<td>Community Care (1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

(1) the figure for Community Care is for direct spending by the Executive only, Grant aided community care spending comes under the local authority portfolio

3. The Justice Budget in the Annual Expenditure Report 2002-03 and the Draft Budget 2002-03 offers another example of the way in which spending plans are broken down by programme.

In the AER, in addition to the overall aim of “A safer and fairer Scotland” and individual objectives (such as paying compensation to blameless victims, improving the range of non custodial disposals available to courts, and to promote
and develop services and support for victims of crime), more detailed information is available under some broad headings. An example of this is Legal Aid.

Table 1.10 More detailed categories of spending (Level 3)

<table>
<thead>
<tr>
<th>£000</th>
<th>2000-01 plans</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Aid Administration</td>
<td>7560</td>
<td>7560</td>
<td>7560</td>
<td>7560</td>
</tr>
<tr>
<td>Legal Aid Fund</td>
<td>125258</td>
<td>127258</td>
<td>127258</td>
<td>127258</td>
</tr>
<tr>
<td></td>
<td>132818</td>
<td>134818</td>
<td>134818</td>
<td>134818</td>
</tr>
</tbody>
</table>

Extracts from Table 1.11 Performance of the Scottish Legal Aid Board against previous objectives

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminal applications within 5 days</td>
<td>82</td>
<td>85</td>
<td>83</td>
<td>85</td>
</tr>
<tr>
<td>Civil applications within 6 weeks</td>
<td>89</td>
<td>89</td>
<td>86</td>
<td>83</td>
</tr>
<tr>
<td>Advice and assistance applications for increase within 5 days</td>
<td>80</td>
<td>84</td>
<td>81</td>
<td>80</td>
</tr>
<tr>
<td>Criminal accounts within 2 weeks</td>
<td>80</td>
<td>86</td>
<td>85</td>
<td>56*</td>
</tr>
<tr>
<td>Civil accounts within 4 weeks</td>
<td>82</td>
<td>84</td>
<td>83</td>
<td>73*</td>
</tr>
<tr>
<td>Advice and assistance accounts within 2 weeks</td>
<td>90</td>
<td>93</td>
<td>90</td>
<td>65*</td>
</tr>
</tbody>
</table>

Note
*In October 1999, the Board introduced a new target for criminal legal accounts of all to be paid within 30 days. This was achieved during the remainder of the year.

4. Similar information with adjusted figures appears in the Draft Budget document. In this budget all sections have clearly and consistently laid out objectives and targets. These are not, however, directly linked to specific sources of funding in every case. This is not necessarily a failing in the document as it may not be possible to directly link funding with quantitative objectives and targets in every case.
Appendix 5

In addition, much of the spending carried out from certain budgets is done so by non-Executive agencies. This poses additional difficulties when attempting to trace spending and to match outcomes with targets.

1. In the Enterprise and Lifelong Learning Budget, in addition to an overall aim: to create a highly skilled, learning, earning, connected Scotland, and some overall strategic objectives, each agency has specific objectives and targets which are presented in the documents. Though in certain instances, examples of successes attributed to an agency are offered these are often not linked to original targets or examined in terms of expenditure. For example, the SHEFC entry p. 75 in the AER 2002-03 states: In 1998-99, the latest year for which information is available:

- Some 53000 students successfully completed a higher education course in Scotland
- Over 74% of those students attended higher education institutions

2. Scottish Enterprise and Highlands and Islands Enterprise also set general objectives:

- raise the sustainable growth rate of the Scottish economy
- make sure that Scotland is a globally connected nation
- raise the employment rate across Scotland

3. These objectives are supplemented by more detailed targets linked to the 12 objectives set out in Smart Successful Scotland. In this document such targets are not linked to spending though this is addressed in the AER 2003-04. It could also be suggested that not all the targets suggested are appropriate e.g. no.of vocational qualifications secured.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs supported FTE</td>
<td></td>
<td>3200</td>
<td>2800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assisted new business starts</td>
<td></td>
<td>400</td>
<td>450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of vocational qualifications secured</td>
<td></td>
<td>800</td>
<td>1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Learning Accounts</td>
<td></td>
<td></td>
<td>10000</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Modern Apprenticeships in training</td>
<td></td>
<td>1310</td>
<td>1475</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Starts in Training for Work</td>
<td></td>
<td>970</td>
<td>****</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs supported in Community Businesses</td>
<td></td>
<td>75</td>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved community facilities</td>
<td></td>
<td>80</td>
<td>80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes
*targets taken from Measuring Sustainable Progress framework introduced with effect from 1 April 2000
**all figures provisional: they require to be finalised by HIE and agreed with Executive as part of Operating Plan process
***targets to be set following autumn 2001 review of experience within ILA scheme
****target in process of being set to reflect new TfW priorities

4. In this document, figures for Scottish Tourist Board (now Visit Scotland) only appear at level 3 under the broad category headings “Administration” and “Promotion & Development”.

1. **In Education and Children** the statutory responsibility for service delivery rests principally with education authorities and schools under their management. The majority of provision for school education is made through unhypothecated support to education authorities.

6. The schools budget supports 2 NDPBs: Learning and Teaching Scotland (LTS) and the Scottish Qualifications Authority (SQA).

7. This paper does not deal with Health and Community Care Committee and the Local Government. However, both Committees have complained about the lack of information on the uses of money and, in particular, the absence of any serious consideration of outputs in the sections of the budget documents with which they deal. Together Health and Local Government account for nearly 60% of the budget. The Health and Community Care Committee, is concerned that it is unable to make an informed judgement about the adequacy of allocations to particular types of care or disease. The Local Government Committee must balance support for local autonomy and its opposition to ring fencing with a need to identify how money is spent.

In a paper considered by the Finance Committee FI.02.19.5 on 8 October 2002, Professor Arthur Midwinter stated, “The Parliament must consciously decide whether that part of the budget is not to be scrutinised in the way that other budget elements are.”
Annex 6

Indications of performance against past targets are not consistently represented in the budget documents

1. Even within budgets, the extent to which performance is specifically measured against previous targets is patchy. In the AER 2002-03 Justice Budget, certain sections mention the extent to which prior targets have been met whilst other sections do not. In other departmental budgets no specific mention is made about attainment in relation to previous targets.

Criminal Injuries Compensation AER 2002-03 p. 16
“During the early part of the financial year 1999-00, despite an unusually high turnover of staff, the Board was above its target on criminal applications and within 1% point on Advice and Assistance application”.

Police Central Government AER 2002-03 p.30

Objectives and Targets
“Provide accurate disclosure information in good time (under Police (CC) 4/1989)
- Provide information in 8 days (actual 1999-00 90%, target 2001-02 96%)
- Provide information in 10 days (actual 1999-00 96% target 2001-02 98%)

Introduce arrangements for extended access to criminal record checks for employment vetting and other purposes under Part V of the Police Act 1997
- Be ready to start receiving applications for the two highest levels of check by summer 2001

Provide efficient and effective Livescan Fingerprint service confirming identity or otherwise within 2 hours of receiving images
- Actual 1999-00 95%, target 2002-03 97%”

These examples from the AER 2002-03 show the presentation of actual achievements and objectives but not whether previous targets have been missed/met/exceeded. The budget documents also offer more detailed explanations of the nature of these targets.

Scottish Prison Service AER 2002-03 p. 33
The following example from the Scottish Prison Service section of the Justice budget in 2002-03 AER 2002-03 is unusual in that reference is made to whether targets have been met.

Objectives and targets
The Scottish Prison Service
- Met or exceeded 7 of its 9 targets
Continued its excellent performance in ensuring prisoners were kept in secure custody, meeting all targets and exceeding targets for category B and C prisoners

Continued to increase, above target, the opportunities for self development given to prisoners

There was particular success in delivering the targets for good order:

- The number of assaults on staff were below target for the first time in 4 years
- The number of assaults on prisoners showed a decrease of 29%, significantly bettering the target

**What we will do with the money**

Performance measures and targets were published in the SPS Business Plan. Performance measures and targets for 2001-02 will be announced by the Deputy First Minister by the end of March 2001.

2. In the Health and Community Care budget documents sets out targets for Public Health projects funded from the Health Improvement Fund (Draft Budget 2002-03, p.p.130-135). These are linked to various initiatives for which funding is allocated such as the National Health Demonstration Projects, Drugs Misuse initiatives and campaigns to target smoking:

**Health Improvement Fund**

The Health Improvement Fund is investing an additional £26m a year on improving Scotland’s health, representing the biggest ever drive to improve Scotland’s unenviable health record:

- Over the next 4 years on average £17m each year will be channelled through Health Boards
- The remaining £9m will be invested through national initiatives, including a boost of nearly £3m a year for the Health Education Board Scotland (HEBS)

A number of priorities have been identified:

- Promoting the general wellbeing of children, to include:
  - Additional resources to improve the contribution of health professionals to Sure Start Scotland
  - A new educational media campaign to promote better child and family health, and the expansion of the health service support offered through Sure Start Scotland
  - Free toothpaste and toothbrushes for 100,000 Scots children by 2001

- Improving the diet of children, to include:
  - Fresh fruit for infants to improve their diet, delivery in every Health Board area in Scotland through local playgroups and other day care centres
  - A major expansion of breakfast clubs and fruit/salad bars in school settings

- Stepping up work to improve sexual health, particularly amongst young people
• Stepping up work to improve lifestyles
  - (i.e. smoking, diet, alcohol, drugs, and exercise), particularly with target groups. This includes a doubling of investment to £2m a year for the NHS to help more people quit smoking, targeted at those on low incomes

3. For each initiative spending is allocated and activities undertaken under each budget heading are set out in the Draft Budget 2002-03 (p.134), however, specific targets are not provided in every case, for example:

**Alcohol Misuse**

The Health Department is providing central funding of £1m in 2001-02 to develop a national Plan for Action on alcohol misuse by the end of 2001. This funding is in addition to the resources already devoted by health and social work services to addressing the consequences of alcohol misuse and prevention.

Activities being undertaken as part of the development of the Plan for Action include:

• An inclusive 6-month public consultation exercise
• A review of current services and the development of new planning guidance for all the agencies involved
• Research on the costs of alcohol misuse and on the cost effectiveness of measures to address it
• Research and developmental work on specific topics such as use of alcohol by children and young people
Annex 7

Information in Scotland’s Budget Documents 2002-03 is presented in a more consistent way than information appearing in either the AER or the Draft Budget. However, references to money allocated are only made at the highest level.

1. Example drawn from the Health Department Chapter

“Objectives

• To develop and deliver modern, person-centred, primary care and community care services, in which high quality, integrated services are delivered close to patients’ homes and ensuring that there is support and protection for those members of society who are in greatest need.
• To focus on three clinical priority areas – coronary heart disease/stroke, cancer and mental health – and give particular attention to services for children and young people
• To provide a modern high quality, responsive NHS in Scotland, working in partnership with patients to provide services designed from the patients’ perspective, harnessing new technology to improve services for patients and ensuring that patients’ rights are respected and protected.”

2. In addition to these general targets, this document also contains information concerning operating budgets and capital expenditure. Figures for the operating budget are broken down in terms of:

• advances to Health Boards less income from sources such as charges to private patients and income generation schemes;
• contributions to clinical negligence and other risk schemes,
• general dental services less income from charges collected by dentists;
• general medical services less income from rental of NHS properties;
• general ophthalmic services;
• general pharmaceutical services; and
• other expenditure from outside Departmental Expenditure Limits.

3. Performance targets for programme operating budgets are shown in relation to departmental aims and objectives. For example:

“Departmental Aim:

• To improve the health and quality of life of people in Scotland.

Objective:
• To monitor, protect and improve the health of the people in Scotland, implementing policies which address inequalities in health, prevent disease, prolong life and promote and protect health.”

<table>
<thead>
<tr>
<th>Performance Targets</th>
<th>Unit</th>
<th>2001-2002-09-10 (actual)</th>
<th>2002-03 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will invest in children’s health, through more help for vulnerable families, breakfast clubs, fruit and toothbrush schemes, and training and employing more nurses.</td>
<td></td>
<td>Food and toothbrush schemes are being supported by the Health Improvement Fund. A challenge fund of £250,000 was announced in Nov 2001. 100000 toothbrushes/paste distributed to 8mths-3yrs.</td>
<td>Work is in hand to introduce national standards for school meals during 2002-03. Toothbrush/paste distribution ongoing</td>
</tr>
</tbody>
</table>

4. The above example links spending directly with particular targets and objectives and sets these out in relation to the actual achievements of the previous year. However, the extent to which such information is useful is dependent upon the acknowledgement of where specified money is coming from i.e. whether it is “new money” or whether it is a reallocation or a repackaging of existing money drawn from the budget.

5. The following tables show examples of consistency between documents.

**AER 2001-02 Table 5.21 Distribution of spending on other health services**

<table>
<thead>
<tr>
<th>£m</th>
<th>2000-01 estimate</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Improvement Fund</td>
<td>26,000</td>
<td>26,000</td>
<td>26,000</td>
<td></td>
</tr>
</tbody>
</table>

**Draft Budget 2001-02 Table 5.21 Distribution of other services expenditure**

<table>
<thead>
<tr>
<th>£m</th>
<th>2000-01 estimate</th>
<th>2001-02 plans</th>
<th>2002-03 plans</th>
<th>2003-04 plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Promotion Fund</td>
<td>26.0</td>
<td>26.0</td>
<td>26.0</td>
<td></td>
</tr>
</tbody>
</table>

Capital Expenditure is shown on a hospital by hospital basis.

5. Though the manner in which each of the budgets are presented in AER and Draft Budget documents for 2002-03 differ, a standardised format is adopted in Scotland’s Budget Documents.
REFERENCES


Scottish Executive: _Scotland’s Budget Documents 2002-03 Budget (Scotland) (No.3) Bill_ for the year ending 31 March 2003. Online copy available @ [http://www.scotland.gov.uk/library3/finance/sbd3-00.asp](http://www.scotland.gov.uk/library3/finance/sbd3-00.asp)


Annexe D
This briefing is intended to assist new Members and others with an interest in understanding the principles and processes underpinning the Scottish budget. It has been produced in response to a recommendation in the report of the Financial Issues Advisory Group (FIAG). The briefing explains some of the basic elements of public finance and describes the process of parliamentary scrutiny. It also summarises the historical developments that led to the current process and provides a one-page summary of a ‘standard year’ of budget scrutiny. This briefing can be read in conjunction with a previously published public finance glossary (Earle and McVicar, 2001).
INTRODUCTION

The Scottish Budget funds the expenditure of the Scotland Office, the Scottish Executive and its associated Departments and agencies, health boards, local authorities, Non-Departmental Public Bodies, nationalised industries, the Scottish Parliament and Audit Scotland. For 2003-4, the Budget is planned to be over £23 billion.¹

It funds both current and the majority of capital expenditure for these organisations. Current expenditure includes most direct expenditure on public sector pay and providing services that are continuing programmes financed each year, e.g. health or education. It does not include the purchase of tangible, physical assets. Capital expenditure is money spent on physical assets, e.g. new construction, land, extensions and alterations to existing buildings and the purchase of fixed assets such as plant and machinery.

ORIGINS OF THE BUDGET PROCESS IN DEVOLVED SCOTLAND

Financial Issues Advisory Group (FIAG)

The budget process for post-devolution Scotland was developed in the late 1990s and was influenced by the prevailing attitude that the new Parliament should be as open and accessible as possible. These values informed the work of the Consultative Steering Group (CSG), established by the then Secretary of State, Donald Dewar MP, under the chairmanship of Henry McLeish MP, in order to develop the principles by which the Parliament and Executive would operate. As part of this, a smaller group on finance issues was established to inform the CSG. This was known as the Financial Issues Advisory Group (FIAG) and consisted of public finance experts and senior civil servants. FIAG’s report was published in 1998 and recommended a three stage process of budget scrutiny and authorisation that marked a departure from the Westminster model (The Scottish Office, 1998).

According to FIAG, the problems with budget scrutiny at Westminster were four-fold:

- The limited time available for discussion of budget proposals on the floor of the House;
- the motions available do not allow the House of Commons to influence the budget proposals;
- the range of documents in which financial information is presented and the way in which such documents are considered by Parliament is less than satisfactory; and
- many MPs lack the time and the technical expertise required to understand the budget documents.

¹ The Scottish Budget does not fund expenditure by UK Departments in Scotland (for example defence spending or welfare payments). The Scottish Parliament has no responsibility for this, and this other public expenditure remains reserved to Westminster. The Scottish Executive has estimated that total public spending in Scotland (both reserved and devolved) was in excess of £36 billion in 2000-01 (Scottish Executive, 2003), p.2.
The report went on to argue that:

“Therefore, the Westminster system has not succeeded in promoting a constructive discussion of budgetary and expenditure priorities or a sensible dialogue between Executive and Parliament on these issues. As a result, the UK Parliament has no meaningful input and the approval of expenditure is made ex post facto. So, although the present system ensures that financial information is presented, it does not encourage the House and its Committees to make the best use of that information” (The Scottish Office, 1998, p.28)

The Group produced 82 recommendations on the following five broad issues, the first two of which are most relevant to the budget process in Scotland:

- **Terminology** – the need to use plain English, and standard accountancy terms where possible to aid a wider understanding and therefore participation in the budgetary process.
- **Budgetary procedures** – a budget process less dominated by the Executive, involving greater scrutiny by the Parliament than is the case at Westminster.
- **Accounting Arrangements** – including the adoption of “resource accounting and budgeting” as opposed to cash accounting, meaning that accounts measure resources when they are used as opposed to when they are paid for. Additionally the accounts should be presented in an accessible manner and should be wide ranging and cover financial as well as performance information.
- **Accountability** – including providing clear lines of accountability through a system of “accountable officers”, explicit rights of access to a range of financial information for the Auditor General for Scotland,
- **Audit Arrangements** - including a need for a streamlining of audit functions.

Despite the move to three-yearly planning at the UK level, FIA argued that there was still a strong need for statutory annual budget procedures and recommended that the Scottish Parliament introduce an annual procedure to scrutinise and approve the Executive’s spending proposals. FIA was determined that the Budget should be approved prior to the commencement of the financial year as a matter of good practice.

**Legislative basis**

Basic financial provisions for the Parliament were established by the **Scotland Act 1998**. This required the establishment of the Scottish Consolidated Fund into which payments were to be made by the Secretary of State for Scotland (in the main the assigned budget or block), the proceeds of varying the tax rate, and other receipts. The Act also provides for the Secretary of State to lend Scottish Ministers up to £0.5 billion for meeting a temporary shortfall on the Fund. While taxation in general is reserved (except for the varying power), the Act allows for the Parliament to legislate on local taxation and charges for public services.

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2 The assigned budget and block are further discussed below
The arrangements were further developed by the Public Finance and Accountability (Scotland) Act 2000, which was the first primary legislation (barring an emergency Act) to be passed by the new Parliament.

In 1999, Jack McConnell, then Minister for Finance and Local Government, stated that the aims of the legislation 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.

**HOW IS THE SCOTTISH BUDGET CONSTRUCTED?**

The Budget (also referred to as Total Managed Expenditure, or TME) is essentially the budget that the Scottish Parliament is required to approve each year with the passing of the Budget Act. The vast majority of the budget is funded by a grant authorised by Westminster. This used to be known as ‘the Scottish Block’ but is now commonly called the ‘assigned budget’. The budget is also composed of locally financed expenditure (non-domestic rates), and the variable rate of income tax, should the Scottish Parliament decide to utilise its powers in this regard. Scotland’s share of European Structural Funds is also allocated through the assigned budget from Westminster.

The resulting budget for Scotland is composed of a number of different categories of public expenditure:

- **Departmental Expenditure Limits (DELs):** Broadly speaking, this is the bulk of the Scottish budget, which operates in much the same way as the old Scottish Block. DELs are spending plans that are set for three years in the first instance. DELs are divided into current and capital budgets and for example, will account for almost 90 per cent of the total Scottish budget in 2003-4. Changes in this part of the budget are determined by the Barnett Formula.

- **Annually Managed Expenditure (AME):** This is spending included in the budget but not falling within DEL. Expenditure in AME is generally less predictable, more demand led and so less controllable than expenditure in DEL. It therefore needs to be ‘annually managed’ rather than determined on a longer-term basis. The main AME items in the Scottish budget are Common Agricultural Policy (CAP) spending, housing support grant and NHS and teachers’ pensions. It accounts for less than 10 per cent of TME.

(These components are not unique to the Scottish Budget. UK Government Departments’ spending plans are also composed of DEL and, where appropriate, AME.)
• **Non-Domestic Rates Income (NDRI):** This forms part of the Scottish Executive’s support to local authorities. NDRI is more commonly referred to as business rates. All commercial properties pay rates based on rateable values of properties multiplied by a rate poundage. Prior to 1989 local authorities had responsibility for setting business rates in their own area; however, business rates are now set nationally. Local authorities collect the tax but the Executive determines how the income from the ‘national pool’ of non-domestic rates is distributed amongst local authorities.

Expenditure is paid from the **Scottish Consolidated Fund** which is, in effect, a ‘bank account’ into which payments are made and from which all expenditure incurred by the Scottish Executive, Scottish Parliament and associated bodies is taken. Most of the receipts are paid into the Fund by the Secretary of State for Scotland, being the monies authorised by the Westminster Parliament to fund the Scottish Assigned Budget. Payments into the account also include receipts from charges and other income.

Although the Scottish Parliament has the technical freedom to establish its own budgeting and accounting procedures, a number of practical constraints led to a particular model being adopted (Heald and McLeod, 2002). First, the system must be externally credible, which implies compliance with generally accepted standards of accounting practice. Second, the vast majority of funding is voted by Westminster and the Scottish Executive must be able to account for it in terms acceptable to the UK Treasury. In practice this means that Scotland, in common with Whitehall Departments, has moved from traditional, cash-based accounting to a resource basis - known as Resource Accounting and Budgeting (see below).

**THE SCOTTISH PARLIAMENT’S ROLE IN ALLOCATING EXPENDITURE**

Apart from the power to vary the basic level of taxation, the Scottish Parliament’s budgetary role is restricted to authorising expenditure, rather than generating income and raising taxes. This is one important difference between the process and its counterpart at Westminster. The budget scrutiny process concentrates on allocations within the overall total, rather than the adequacy of that total.

The budget process is intended to allow the Parliament’s subject committees the opportunity to comment on the Executive’s spending plans at several points during the year prior to the annual budget being agreed. The expectation is that the subject committees should have an active role in scrutinising and making recommendations on spending priorities.

The process is divided into three distinct stages and is guided by an agreement between the Finance Committee and the Executive (SP Paper 155, 2000). The three stages span the course of the year prior to the financial year being discussed, e.g. in 2002-03, the budget proposals for 2003-04 were analysed.
### STAGE ONE:

**Aim** - The first stage in the process is intended to give the Parliament a chance to take a strategic look at the budget, consult with the public and make recommendations to the Executive.

**Timescale** – The Executive is required to submit by 31 March (or the first day thereafter on which the Parliament sits) a “provisional expenditure plan” for each future year of the Spending Review period. This is known as the **Annual Expenditure Report** (the AER). The Parliament responds to the Executive before the summer recess.

**Activity** – The Parliament’s subject Committees make comments on the budget in relation to their own areas. These responses are submitted to the Finance Committee which makes recommendations to the Executive in its Stage One report. There is a plenary debate on the report and the Executive is required to later respond in detail to the report.

### STAGE TWO:

**Aim** – This is, in effect, the **Draft Budget**, where the Executive should present firm spending plans for the following financial year. The second stage allows the Parliament to assess whether the Executive has taken on board the comments made at Stage One and to assess the allocation of any additional monies assigned by Westminster since the publication of the AER (e.g. from the UK Budget or the Spending Review). It also gives the Finance Committee the opportunity to propose an alternative budget. The Executive must indicate at this point if it intends to use the tax varying power in the following financial year.

**Timescale** – Scottish Ministers normally present their proposals by 20 September (or the first sitting day thereafter). The Finance Committee produces a report, again to be debated by the Parliament before the end of December.

**Activity** – The Finance Committee again has the job of co-ordinating the responses from the subject Committees. Following consultation amongst the Committees, the Parliament debates a motion tabled by the Finance Committee. Committees or individual members may also table motions at this stage.
STAGE THREE

Aim – This provides Parliamentary authority for spending in Scotland for the following financial year. (For clarification, readers should note that, while this is the third stage of the budget process, the passage of the Budget Bill itself, in common with other Scottish Parliament legislation, also has three stages).

Timescale – Because of this extensive pre-legislative scrutiny, the time allocated to the passage of the Bill is truncated. The Executive must introduce the Budget Bill by 20 January each year. Stage Three of the Bill must begin between 20 and 30 days from introduction. If the Budget Act is not in place by the end of the financial year, the Public Finance and Accountability (Scotland) Act 2000 allows for expenditure to continue for previously approved purposes up to the same rate as the previous year.

Activity – The Executive is required to provide a report setting out its response to the Parliament’s recommendations, as well as any changes resulting from new allocations from the UK government. Only a member of the Executive is allowed to bring forward amendments to the Bill at this stage. The Parliament finally passes the Budget Bill, approving expenditure for the following financial year and the process begins again.

The documents published at each of the three stages serve different purposes and are presented in different ways. The Stage One and Two documents, the AER and the Draft Budget, are presented on a portfolio basis (i.e. in terms of Ministerial responsibility). However, the Budget Documents accompanying the Budget Bill represent these figures on a Departmental (or Vote) basis. This is for reasons of “stability” (i.e. departments are less likely to alter than ministerial portfolios) and also because each budget heading is allocated an accountable officer within the Scottish Executive who is accountable to the Parliament for the use of the resources under their control3

The documents all record expenditure at different ‘levels’ to ensure that scrutiny of the budget can be relatively detailed. ‘Level One’ is expenditure recorded at portfolio level (e.g. Enterprise and Lifelong Learning, Justice or Education). ‘Level Two’ is expenditure recorded at sub-portfolio level (e.g. Student Awards Agency for Scotland (within Enterprise and Lifelong Learning), Scottish Prison Service (within Justice) or Schools (within Education)). Finally, ‘Level Three’ records expenditure at a still lower level (e.g. Grants and Bursaries, Capital Spending, or Her Majesty’s Inspectorate of Education).

The extent to which the subject committees have been prepared to make changes to the Executive's proposed expenditure plans has been limited. In 2000, three recommendations were made. In 2001, none were proposed. However, in 2002, a more consistent approach was adopted across committees and, at Stage One, 12 recommendations on the Scottish budget were made.

3 Public Finance and Accountability (Scotland) Act 2000, section 15

providing research and information services to the Scottish Parliament
TAX VARYING POWER

Sections 73 to 80 of the Scotland Act 1998 allow the Scottish Parliament to raise or lower the basic rate of income tax by up to 3p (in multiples of half a pence). Any variation would apply to the taxable income of Scottish taxpayers. A resolution to exercise the tax-varying power can only be moved by a member of the Executive. The UK Treasury is required to propose amendments to these powers where changes to the UK taxation structure (e.g. in the width of the various taxation bands) would significantly alter the Parliament’s ability to raise or forego taxation revenue.

Sections 77 and 78 of the Scotland Act provide that an estimate of the revenue to be raised through any increase in the basic rate will be paid by the Inland Revenue to the Scottish Consolidated Fund (SCF). Were the basic rate to be reduced in Scotland, the Scottish Consolidated Fund would be required to pay an amount equal to the estimated shortfall into the UK Consolidated Fund. When the tax-varying power is used, the Scottish Departmental Expenditure Limit (DEL) will be adjusted to take account of any change in the amount available to spend. At the same time, where its use produces a cost to UK Government Departments, the DEL will be adjusted downwards to compensate. If, for example, the basic rate of tax is increased by 1p the DEL will be adjusted to take account of running costs for the DSS and the Inland Revenue.

UK FACTORS

In addition to the allocation of the Westminster Grant/assigned budget, a number of factors influence the total amount of money coming to the SCF.

Spending Reviews and the UK Budget

The UK Spending Reviews (SRs) mark the most important release of additional funding to UK Departments and the Scottish Budget. Prior to 1997, Scottish Office budgets were drawn up in annual negotiation with the Treasury. In 1998, the Labour Government replaced this model with the ‘Spending Review’ process which is now officially described as a ‘three year plan reviewed every two years’. The intention has been to fix firm three-year plans for the bulk of the budget (the part known as the Departmental Expenditure Limit), and only annually plan for those parts of the budget that cannot be planned for over a longer time-frame (Annually Managed Expenditure). The first Comprehensive Spending Review was announced in 1998 and was described as a comprehensive review of departmental aims and objectives alongside an analysis of each spending programme. It set new baselines for expenditure and two subsequent SRs in 2000 and 2002 have updated these baselines. It is these latter examples that have impacted on the Scottish budget process.

4 Although forward planning was done on a loose three-year basis, known as the Public Expenditure Survey (PES)
Because Spending Reviews have occurred during a period of expansion of public spending, each Review has had the effect of releasing additional resources to Scotland, mainly via the Barnett Formula. UK Spending Reviews are announced in the summer, in between Stages One and Two of the Scottish budget process. Although the Scottish Executive factors the new funding into the Draft Budget in the Autumn, the release of the new monies means that some of the Stage One scrutiny work has to be undertaken again at Stage Two. In addition, SR 2002 delayed the publication of the Scottish Draft Budget that year.

In addition, the UK Budget can also release additional resources into the system, outwith the SR process. Increased new spending announced by the Chancellor will reach Scotland as a consequential of the Barnett Formula (see below). As the UK Budget is announced in April, Scottish Executive Ministers are not able to factor any new monies into the Stage One figures.

Both these events, while bringing more money to Scotland via the Barnett Formula, mean that the total budget estimated in the Draft Budget can be substantially different from that of the Stage One figures. For example, the Budget for 2003-4 was estimated to be £22.3bn at the time of the Stage One scrutiny, but had risen to £22.9bn by the time of the Draft Budget in the Autumn.

END YEAR FLEXIBILITY (EYF)

In line with UK Government Accounting rules, Departments are not permitted to overspend in a financial year. This means that the Scottish Parliament cannot authorise expenditure in excess of the total assigned budget and other sources of income. Indeed, the Treasury’s Statement of Funding Policy, which lays out the arrangements for funding the devolved administrations, states:

> Breaches in DELs which materialise at the end of the year would be viewed by the United Kingdom Government as serious mismanagement on the part of the devolved administration and the presumption would be that the following year’s DEL and grant to the devolved administration would be reduced by an amount equivalent to the breach. The same rule applies to Departments of the United Kingdom Government. (HM Treasury, 2002, p.28)

However, the rules relating to underspend were relaxed in the late 1990s. Under previous UK fiscal regimes, any Departmental underspend would automatically transfer back to the centre. However, Departments (including those in or under the control of the devolved administrations) are now allowed much greater flexibility to carry forward unspent monies from one year to the following. This is partly a reflection of the move to three-year planning in the Departmental Expenditure Limits (AME expenditure is not eligible to be carried forward because it is allocated on an annual basis).

In Scotland, current Scottish Executive policy permits each Department to retain 75 per cent of its underspend, or End Year Flexibility (EYF). The remaining 25 per cent
is returned to be centrally allocated by the Executive. Departments then make the case for additional in-year resources from that pot (although, in practice, much of the 25 per cent is returned to the original Department). There is no formal bidding process, just a series of discussions between the Finance Ministers and other Ministers. In theory, a Department can receive more than 100 per cent of its EYF total. In 1999-00, EYF was £435m, in 2000-1, it was £718m, and in 2001-2, it was £643m (announced in June 2002).

According to the Scottish Executive, EYF occurs for the following reasons:

- Finance put aside against future, planned spending commitments
- Additional in-year income
- Fluctuations in demand within demand-led budgets
- A contingency reserve
- Underspend from slippage in the implementation of some projects (mainly capital)
- Budgets controlled by other, arms-length bodies that count against the assigned budget for the purposes of reconciling EYF with HM Treasury.

Heald and McLeod (2002) suggest some additional reasons for the high levels of underspend:

- The availability of EYF means that Departments no longer feel pressured to indulge in unnecessary year-end spending
- The recent large year-on-year increases in DELs have led to Departmental difficulties in spending the additional money
- Where capital programmes had been run down, it has taken a considerable period of time for Departments to re-equip themselves to manage such programmes
- The diversion of effort into Private Finance Initiative (PFI) schemes may also have contributed to underspending on capital
- The increasing amount of top slicing of resources for particular purposes, has built more fragmentation into programmes. In their view, this is likely to lead to cumulative underspend as the ability to move resources quickly is impeded.

**BUDGET REVISIONS**

Each Budget (Scotland) Act authorises planned expenditure for the following financial year. However, in reality, spending commitments will inevitably shift within that year and more, or less money will be required for different spending areas than originally envisaged. Therefore, the Executive is able to request Parliamentary authority to make in-year changes. These are known as **budget revisions**, and usually occur in Summer, Autumn and/or Spring. These are changes that apply to the current financial year and are outwith the three-stage process outlined above (which always scrutinises plans for the next financial year).

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5 Scottish Executive (2002) Memo accompanying statement on budget revisions by the Minister for Finance and Public Services, 26 June 2002
Budget Revisions usually seek Parliamentary approval to:

- Transfer monies between Departments of the Scottish Executive
- Allocate transfers of monies between Whitehall and the Scottish Executive

The Finance Committee has responsibility for scrutinising the proposals, in the relevant Scottish Statutory Instrument, and making a recommendation to the Parliament as to whether or not they should be agreed.

**RESOURCE ACCOUNTING AND BUDGETING (RAB)**

This is a fundamental change to the way in which the UK Government accounts for and controls public expenditure. Until financial year 2001-02, the UK Government accounted for expenditure solely on the basis of cash spent and cash received in any one year, known as cash accounting (or appropriation accounts).

RAB moves away from a cash-based system to one that takes account of resources and assets. It is based on the resources consumed by each Department and treats capital and current expenditure relative to economic significance. RAB is intended to provide a better measure of the cost of the activities of central government Departments. Its impact will be greater on the presentation of budgets for Departments with heavy capital expenditure (e.g. roads).

The UK Government's view is that RAB provides the following benefits:

- new incentives for the management of assets and investment
- a long-term planning framework removing distortions and perverse incentives intrinsic in the old budgeting system, and building in new incentives to reward good management
- better information for managers on the costs of providing public services on which to base decisions, and better information for Parliament and the public

As of 2003-4 SR onwards, all budgeting is fully in RAB terms.

**THE RESERVE (OR CONTINGENCY FUND)**

The Reserve is a small budget maintained by the Scottish Executive in order to meet (from within the assigned budget) exceptional expenditure that could not have been foreseen at the time the budget was set. FIAG recommended the establishment of some kind of fund:

> There is a requirement to provide funding to meet sudden, unexpected needs. In most cases, this will require additional expenditure on areas where spending already takes place. For example, in the event of a natural disaster, it may be necessary to supplement grants to a local authority. For this reason, FIAG
...recommends that Parliament makes arrangements to set aside each year, a Reserve. This would consist of money that will be held back to deal with any crises that arise.

Access to the Reserve is essentially a bidding process, with the relevant Minister applying for additional funding. Where appropriate, a decision is taken to seek Cabinet approval. Parliamentary authority would be sought as part of the usual process of in-year revisions.

In addition, a UK Reserve exists and access to this by the Secretary of State for Scotland on behalf of the Scottish Executive can be considered by Treasury Ministers in exceptional circumstances. Because DELs set three-year spending plans, the expectation of the UK Government is that all UK Departments and the devolved administrations must spend within these plans and absorb unforeseen pressures. The presumption is that devolved administrations will contain pressures on their budget by re-allocating priorities, not through in-year access to the UK Reserve (the move toward End Year Flexibility is designed to encourage this process). The devolved administrations will be treated in the same manner as United Kingdom Departments in decisions on access to the DEL Reserve (HM Treasury, 2002, p.26). Applications might be made where large amounts of unforeseen expenditure were incurred by the Scottish Executive (e.g. the Lockerbie Trial or the impact of Foot and Mouth Disease).

THE BARNETT FORMULA

The formula was introduced in 1978 and is designed to automatically apply to Scotland a proportionate share (based on population) of any increase (or decrease) in comparable UK spending programmes. UK spending Departments reach agreement with the Treasury through Departmental negotiation and the Barnett Formula then ensures that Scotland and Wales receive increases in the same spending areas, on the basis of their population share.

As originally devised, the population proportions reflected population estimates from 1976 by which Scotland received 10/85ths of any increase/decrease in comparable programmes. In 1992, these were ‘recalibrated’ to reflect changes in population ratios based on data from the 1991 census. Following devolution, population shares are re-calculated annually on the basis of the latest mid-year population estimates for England, Scotland and Wales published by the Office of National Statistics (HM Treasury, 2002, p.10). The population percentages currently applying are:

- Scotland as a proportion of England: 10.23%
- Scotland as a proportion of England and Wales: 9.66%

The formula is applied only when there are changes to expenditure in England and, once allocated, Scottish Ministers are not obliged to spend this money in the same spending area as in England. The formula only applies to comparable devolved

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6 The Finance Committee scrutinises these applications during its examination of the in-year Budget Revisions
7 In this sense, ‘UK’ means either English or English and Welsh programmes
spending and has no relevance to UK Government expenditure in Scotland by other Departments, e.g. the Ministry of Defence or the Department for Work and Pensions. Contrary to some popular misconception, the Barnett Formula is not and never has been a ‘needs-based formula’ and has never attempted to allocate expenditure on the basis of comparative need. It is purely a simple and transparent way of allocating changes on the basis of population share.

The Formula applies to changes in the assigned budget within DEL but not to DEL items in the non-assigned budget, or to Annually Managed Expenditure (AME), which is calculated on an annual basis according to actual requirement. 8

AUDITING ARRANGEMENTS

The Auditor General for Scotland is responsible for scrutinising the accounts of Departments of the Scottish Executive and most other public spending bodies (with the exception of local authorities and fire and police boards, which are the responsibility of the Accounts Commission for Scotland). He is an independent official, appointed by the Queen on the nomination of the Parliament and can only be removed by a two-thirds majority of the members of the Parliament.

Scottish Ministers, the Lord Advocate and any other accountable individual receiving money from the Scottish Consolidated Fund (e.g. the Registrar General), are required by the Public Finance and Accountability (Scotland) Act 2000, to prepare accounts for each financial year. The Auditor General must audit these accounts (either himself or through an appointed auditor) and send both the accounts and the auditor’s report to Scottish Ministers.

He may also conduct Value-For-Money (VFM) examinations or “performance audits” into the economy, efficiency and effectiveness of public bodies in their use of resources.

The Accounts Commission for Scotland was set up in 1975 and is independent of both central and local government. The Commission is responsible for securing the audit of the 32 local authorities and 34 joint boards. It also seeks to promote Best Value and aims to assist audited bodies to achieve economic, efficient and effective use of their resources.

Audit Scotland provides services to the Auditor General and the Accounts Commission for Scotland. Its role is to ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public money. It is composed of staff of the Accounts Commission, together with former staff of the Scottish office of the National Audit Office. Audit Scotland receives funding as a discrete vote within the Budget (Scotland) Act each year, thereby maintaining its independence from the Scottish Executive.

8 Main AME items in the Scottish budget include CAP spending, housing support grant and NHS and teachers’ pensions, local authority self-financed expenditure and non-domestic rates
REFERENCES

Earle, M and McVicar (2001), Public Finance: A Glossary of Terms, SPICe Subject Map 01/02, Edinburgh: The Scottish Parliament Information Centre


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### Other elements

**Spring: UK Budget**

- **End Year Flexibility Announcement (before or after summer Recess)**
  - Mar/Apr: Publication of Annual Expenditure Report
  - Finance Committee oversees consultation process with subject committees
  - April/May: Subject committees examine relevant chapter. Send reports to Finance Committee
  - June: Finance Committee Reports to Parliament. Parliament debates this Report

**Stage One (March - June)**

The Annual Expenditure Report (AER) is published and comprises a detailed breakdown of the Executive’s spending plans and priorities. Each chapter will cover the expenditure of particular portfolios. The relevant subject committees will be responsible for commenting on the relationship between expenditure plans and policy priorities in their spending area (this may also involve consultation with outside bodies and interested individuals).

These responses will be co-ordinated by the Finance Committee, which will report to the Parliament. The Report will be debated by the Parliament before summer Recess. In the light of the Parliament’s input (and comment from other interested bodies), the Executive will prepare firmer plans.

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**UK Spending Review**

**October: Autumn revisions**

**Nov: UK Pre-Budget Report**

- September: Executive publishes draft Budget and Spending Plans
  - Subject committees examine and send reports to Finance Committee
  - Finance Committee considers the draft budget and may propose alternative

- December: Finance Committee Report; Mid Dec.: Parliament debates Report

**Stage Two (September – December)**

Firmer spending plans are be published in September/October. Again, each subject committee may report to the Finance Committee on relevant parts of the package, to identify whether the Parliament’s Stage One recommendations have been acted upon by the Executive.

At this stage the Finance Committee has the option of putting forward an alternative budget with the proviso that this must keep within the overall spending limit set by the Executive’s draft budget. In any event, the Finance Committee will produce a Report by December which will then be debated by the Parliament before Christmas Recess.

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**February: Spring revisions**

- January: Executive produces proposals (having considered Parliament’s recommendations)

- Parliament debates Budget Bill

**Stage Three (January – February)**

The formal Parliamentary process of enacting the Budget Bill. Only a member of the Executive may move amendments. Parliament has a vote to accept or reject it. If accepted, it will authorise expenditure for the following financial year.
Review of the Budget Process

by

Professor Arthur Midwinter

Background

1. This report builds on the results of the review of financial scrutiny arrangements undertaken by the Committee in early 2002. In the informal meeting with former members of the Financial Issues Advisory Group (FIAG) on 21 March 2002, it was suggested that the Committee had to strengthen its consideration of strategy in the budget process. The Committee has already agreed some changes to the process with the Executive and those are set out in the report on the Financial Scrutiny Review. Whilst those changes amount to a series of amendments to the existing process, the Committee has recently agreed that Parliamentary and Executive officials should undertake a review of the current three-stage process. This report therefore sets out the major obstacles to proper scrutiny in the current process and seeks the Committee’s guidance in building on the changes and identifying issues which should be addressed by the new Parliament.

2. The report therefore draws on the experience of the system over the first Parliamentary term and the commissioned research on outcome budgeting\(^1\). It is accepted that the budget scrutiny process should be constructive, with criticism intended to obtain clarification of, and justification for, Executive expenditure decisions and to improve financial performance. This report reflects that spirit and seeks to further develop a rigorous approach.

Principles and Practice

3. FIAG was set up in 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. Its stated objective, in line with the general direction of the Consultative Steering Group, was that the budget process should be ‘open, accessible and accountable to the people of Scotland’. Its proposals related to the principles needed for authorising expenditure; scrutiny of outputs obtained from expenditure; and the management of audit to ensure probity and value-for-money. It was concerned that the process should ‘provide the information which the Parliament needs to make properly informed and timely decisions and to judge the probity and wider value of the actions of the Executive’. Finally, it recommended an annual Budget Act, using primary legislation to authorise the main allocations for the year ahead. These broad principles and procedures are enshrined in the Public Finance and Accountability (Scotland) Act 2000.

4. The budget process operates in three stages as set out in a written agreement between the Finance Committee and the Scottish Ministers\(^2\). Stage 1 begins with publication in March of the Executive’s Annual Expenditure Report (AER), while Stage 2 is focussed on the publication of the Draft Budget. Stage Three is the legislative part of the process and is concerned with the introduction in January of the Budget (Scotland) Bill. If passed by the Parliament the Bill authorises expenditure for the following financial year.

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\(^1\) Moving to Outcome Budgeting, Flynn, 2002.
\(^2\) SP Paper 155
5. The three stage process therefore operates around discussion of three key documents - the Annual Expenditure Report; the Draft Budget; and the Budget Documents produced to accompany the Budget (Scotland) Bill. Together, these documents inform the Parliament of the Executive’s plans, objectives and targets for its expenditure programmes. The primary purpose of the Budget (Scotland) Act is to provide parliamentary authorisation to spend from the Scottish Consolidated Fund for the forthcoming financial year.

**Spending Reviews and End-Year Flexibility**

6. However, a new regime for planning and controlling public expenditure was introduced by the United Kingdom Government in its 1998 Comprehensive Spending Review (CSR). It has become a biennial review and its main features are:

- spending plans being set to cover the whole public sector, using a new aggregate called Total Managed Expenditure (TME);
- firm three-year plans being set for spending in Departmental Expenditure Limits (DEL);
- other spending in TME which cannot reasonably be given firm multi-year limits, is known as Annually Managed Expenditure (AME) and is subject to annual review.

7. Together, the Scottish DEL and AME form the Assigned Budget. The Executive itself sets an annual estimate for non-domestic rate income (NDRI) and together these three elements comprise the Total Budget.

8. The UK Government also introduced a more flexible regime for controlling public expenditure intended to avoid ‘quick spending’ as budgetary years came to an end, known as end-year flexibility or EYF. In addition, the Chancellor’s practice of announcing in-year allocations of additional spending through increased revenues or reduced borrowing etc, has meant that the annual budget has been supplemented by something in the nature of a “mini-budget” in which new allocations and reallocations are made.

9. These changes have meant that in practice, the process in Scotland has not operated quite as envisaged by FIAG. The initial intention was that Stage 1 would be mainly concerned with a review of strategy and priorities for the year ahead based on the AER. FIAG, however, had regarded an Annual Report as a key feature of performance reporting, setting out:

- the overall budget strategy;
- the nature and objectives of each main programme;
- the outcome in previous years, including assessments of output and performance against objectives as well as financial out-turns;
- the plans for the year ahead; and
- the provisional plans for the two subsequent years.
10. In practice, the AER has included elements of an Annual Report, but has in effect been used more as a ‘draft’ Draft Budget than a strategy document. It has contained statements of objectives and targets; elements of programme performance but not financial out-turns; and provisional spending figures at Levels 1, 2 and 3. There has therefore been considerable overlap between the AER and the Draft Budget, as opposed to the clear division between budget strategy and detailed spending proposals envisaged by FIIAG.

11. A second problem has reflected the introduction of Spending Plans for Scotland after the Spending Review Process. In the current financial year, these plans were published in September in the Executive’s “Building a Better Scotland” (BaBS), although detailed decisions on Level 3 funding were not published until the Draft Budget in late October. The result was that a number of the Parliament’s subject Committees used BaBS as the basis of their Stage 2 consideration of Departmental plans, but could neither monitor whether their own spending recommendations at Stage 1 had been included in the Spending Review allocations, nor evaluate the spending priorities over the next Spending Review period.

12. FIIAG’s notion, therefore, of distinctive stages of setting priorities and expenditure strategy (Stage 1); presenting detailed expenditure proposals (Stage 2) and enacting the budget (Stage 3) has not materialised. In practice, the Spending Review exercise has become the central stage in planning and allocating resources. In addition, although the spirit of FIIAG’s recommendations on the need for explanatory narratives on programme objectives and expected outputs and outcomes is met (for example, the most recent Draft Budget shows a significant improvement in financial management information), practice is inconsistent in relation to the provision of costed spending proposals or quantitative targets.

Issues for Consideration

13. These developments leave a number of issues which, it is suggested, need to be addressed by the incoming Committee. These include:

- should the process be reviewed and simplified to deal with the use of three-year budget plans?
- could the financial information provided in the documents be further refined to enhance transparency?; and
- should a formal system of performance reporting be introduced which is supplementary (complementary) to the budget process?

14. In considering the above, it may be worth bearing in mind that there are a number of events that can be taken as fixed, such as the biennial Spending Review process and the four-yearly elections to the Parliament. It will be necessary to devise a system that recognises not only these fixed items, but also the regular additional allocations from Westminster and end-year flexibility arrangements. The following suggests a system which would provide a basis for this, subject to input from the incoming committee and the Executive.
Budget process

15. In terms of the process, it is clear that there is a strong case for revision in the light of experience and the centrality of the Spending Review to the budget process. Particularly in Spending Review years, the process results in a huge amount of information being published. Taking this financial year as an example, the documents published consisted of the AER, BaBS, the Draft Budget, Closing the Opportunity Gap, Building a Sustainable Scotland and the Budget Documents published to accompany the Budget (Scotland) Bill. Alongside this, no formal scrutiny of the Spending Review report is built into the process, which is simply announced to the Parliament in September, despite the fact that, as stated above, the Spending Review is now the key stage in allocating additional resources.

16. In addition to developing a robust mechanism for scrutiny of the biennial Spending Review allocations, there is a continuing need for an annual Budget Bill to meet the traditional function of providing a control mechanism for probity purposes and creating an audit trail. The key issue is how to accommodate this within a three-year planning process.

17. It is possible to envisage a process in which the Spending Review exercise is the start of a two-year budget cycle. This could begin with the publication of a Budget Strategy document, which would include a statement of priorities and would set out existing spending plans for the coming year. This would allow a basis for discussion pending the outcome of the UK Spending Review and an introductory framework similar to that contained in BaBS would facilitate this process. The Budget Strategy Document could also set out any additional spending proposals already in the system, showing them as fully costed, distinct from baseline expenditure and accompanied by a statement of expected outputs.

18. In this system, the Budget Strategy Document would be followed in September by a Draft Budget focussed on detailed spending proposals in the light of the agreed strategy and priorities and the funding levels available. Ministers would report to the Parliament on their handling of committees’ views and recommendations on priorities and the rationale for any additional allocations. Committees could then monitor these and report prior to the final decisions in the budget documents.

19. The Finance Committee has, of course, already raised the need for rationalisation with the Finance Minister. The Committee wrote to the Minister expressing concern “about the significant overlap between the AER and the Draft Budget and consequently, the repetition between Stages One and Two of the budget process. We would propose that, at least in years in which there is no Spending Review, the Draft Budget be reduced in size, simply recording the changes from the AER, and providing an explanatory narrative for the changes” (Letter of 7 March 2002, para 4).

20. This was accepted by the Minister (Letter to the Convener of 29 April 2002) with a caveat about the need to consider the timescales of Spending Review years, which are very tight, making it difficult to meet the publication deadline of 20 September. In line with this, a slimmer, more focussed document was produced in October 2002, although overlaps with the AER remained. This proposal would assist in meeting the current deadline of 20 September, although the timetable could, of course, also be reviewed.
21. The incoming Committee will also need to consider whether any formal scrutiny of the cross-cutting reports is necessary. This could be dealt with through the cross-cutting review process, ensuring both topics are dealt with over the parliamentary term, perhaps starting with the Sustainable Development agenda, (as child poverty and regeneration have both been dealt with this year), and then Closing the Opportunity Gap later in the cycle.

22. Finally, this model would avoid the need for BaBS in its current form, although a shorter report on the Scottish outcomes of the UK Spending Review and how the Executive broadly plans to deal with the allocations would be of public interest.

Performance Reporting

23. Although theoretically the AER was intended to report on financial performance, it simply records current and planned allocations. It does not report on financial performance in terms of budget spent or underspent, and the policy and resource implications of expenditure. This is a gap in the process, as expenditure trends and patterns can be helpful benchmarks for resource allocation. Indeed, as the Outcome Budgeting research showed, practice elsewhere is increasingly to separate performance reporting from the budget process.

24. The research into Outcome Budgeting\(^3\) reported an extensive use of performance information in planning processes in the Executive. It found that this is not comprehensive across a service, nor consistent between services, and gives a number of examples of outcome measures being used in performance assessment, regulation, inspection and audit processes. In Health, clinical outcomes are not used in resource allocation; whilst in Education and Police they are mainly used in the inspection process. In the Justice Department, there are higher level targets for reducing crime and reducing re-offending, but both prison and police services have reservations over such measures when there are many variables involved which they cannot control. This is similar to Social Justice where comparators to reduce inequality and disadvantage are problematic in so far as these targets apply across activities. The Scottish experience corroborates the experience elsewhere; that it is difficult to exercise accountability for outcomes.

25. This makes the monitoring and evaluation of performance difficult. Under the current planning system, there are some new spending proposals which neither quantify costs nor outputs, with some Departments suggesting they cannot clearly distinguish baseline from new expenditure. The Committee has already asked for an exposition of costed proposals with outputs to be a discrete section in the Draft Budget.

26. These problems are exacerbated in the case of block allocations in the Health and Local Government budgets, in which Executive priorities are set out, but assessment takes place in discussions between the Executive and the delivery bodies. This is already an established model in Health in the Performance Assessment Framework and Accountability Reviews; and is developing in Local Outcome Agreements with local authorities. This second model has been used in the Excellence Fund, but the Outcome Budgeting research found that:

\(^3\) op cit
…..local authorities have to specify what they plan to do with additional funding and this is expressed as outcomes. This is an example of an additional (or top sliced) budget being allocated with conditions attached to outcomes. However, for the bulk of the schools budget there is no ‘deal’. It has not yet arisen that local authorities have not been paid for not achieving outcomes. Most of the initiatives are not possible to tie to outputs or outcomes”.4

27. As the Committee is aware, the evidence seems to suggest that any moves to Outcome Budgeting will be long-term, incremental progress may be a more realistic target in the interim. The Committee should consider the need to:

- concentrate on systematic costing and output assessment for all new spending above baseline simply using the current budget as a benchmark if accurate current cost of service accounting is not possible;
- reduce the number of corporate and departmental priorities in the budget estimates;
- rationalise the information basis of the AER and the Draft Budget, with the AER becoming a budget strategy report and the Draft Budget recording changes in allocations; and
- introduce a Performance Report every two years, just prior to the Spending Review processes.

28. There is always a timelag in obtaining output information in terms of both financial and policy performance and the Performance Report would utilise the two previous budgets as the basis for evaluation, thereby covering the previous Spending Review period. In addition, a summary of national progress on spending priorities and delivery targets could be provided. This would be particularly useful for the Finance Committee reviewing progress on strategic and cross-cutting priorities, where key objectives are often long-term.

Conclusions

29. This review has shown that the budget process has not been fully working as F I A G intended, and that the strategic dimension has been underdeveloped. It is clear that the new Westminster regime for planning and controlling expenditure has increased budgetary flexibility and improved the potential for developing the strategic perspective, and for reducing the overlap between stages in the current process.

30. The review also shows that progress with identifying outputs has been made, but further progress is needed, whilst assessing outcomes is more complex and needs a long-term agenda. Nevertheless, it is possible to strengthen scrutiny in a revised cycle focussed on the Spending Review, and ending with a new biennial Performance Report.

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4 Para 4.42
31. The following figure sets out the above proposal for illustrative purposes only.

**Spending Review Year**

March/April: Strategy Document (with 2-3 year perspective to tie in with forthcoming SR)
Performance Report (examining previous 2 years’ performance)

September/October: Draft Budget (short, highlighting changes from Strategy Document, with explanatory text of changes, e.g. SR, committee Stage 1 recommendations etc).

January: Budget Bill

**Non-SR Year**

March/April: Version of the AER with spending plans for following financial year

September/October: Draft Budget (again, a short document, highlighting only the changes)

January: Budget Bill

*End Notes*


1. The remit of the Finance Committee is to consider and report on-

   (a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;

   (b) any report made by a committee setting out proposals concerning public expenditure;

   (c) Budget Bills; and

   (d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, "public expenditure" means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

(Standing Orders of the Scottish Parliament, Rule 6.6)

Membership:

Des McNulty (Convener) (until 28 November 2002)
Brian Adam
David Davidson
Tom McCabe (Convener from 3 December 2002)
Alasdair Morgan  
Richard Simpson (from 28 November 2002)  
Jamie Stone  
Elaine Thomson (from 16 May 2002)

Committee Clerking Team:

Clerk to the Committee  
David McGill

Senior Assistant Clerk  
Terry Shevlin

Assistant Clerk  
Gerry McInally (until 17 January 2003)  
Emma Berry (from 3 February 2003)

The Committee reports to the Parliament as follows-

Introduction

4. There have been a number of changes in the membership of the Committee during the last parliamentary year. Des McNulty was replaced on the Committee by Richard Simpson on 28 November 2002. Tom McCabe was chosen as the new Convener on 3 December 2002. Elaine Thomson rejoined the Committee on 16 May 2002 and was chosen as Deputy Convener at the Committee's meeting of 23 May 2002.

Inquiries and Reports

5. The principal task of the Committee, in common with other years, has been the co-ordination of the Parliament's response to the Scottish Executive's Budget proposals. The budget process, which begins with the publication of the Executive's Annual Expenditure Report in March and concludes with the passing of the Budget (Scotland) Bill in February, involves almost every member of the Scottish Parliament in some capacity. As well as individual members, the central tenet of the process is the involvement of each of the nine subject committees at stages 1 and 2 of the process. The subject committees report back to the Finance Committee, and we then report to the Parliament as a whole, at stage 1 and stage 2.

Private Finance Initiative/Public Private Partnerships
6. The Committee published its report into PFI/PPPs on 2 October 2002. This marked the culmination of an 18 month inquiry, during which time the Committee considered written evidence, held five oral evidence taking sessions and undertook case study examinations of five capital projects.

Financial Scrutiny Review
7. The Committee has just completed its Financial Scrutiny Review, which identified a number of existing practices and procedures which could be changed
to improve the Parliament’s scrutiny of the Executive’s expenditure plans. As part of this exercise, the Committee commissioned external research on the budgetary and financial systems in other devolved territories. This research was published in March 2003 and the Committee expects the incoming Committee to use the recommendations and conclusions as a basis for its future work. In addition to this research, the Committee also appointed an adviser to improve the scrutiny of the Financial Memoranda produced to accompany Bills.

**Cross-Cutting Expenditure Reviews**

8. The Committee has undertaken two cross-cutting reviews to monitor expenditure relating to Executive policies which cut across more than one department. Members decided to examine Regeneration as Delivered Through the Voluntary Sector, and Children in Poverty. The regeneration report was published on 5 February 2003, and the Committee expects that its successor committee will publish the Children in Poverty report early in the next session. The Committee has recommended to its successor committee that cross-cutting reviews should be undertaken on an annual basis.

**Outcome Budgeting**

9. The Committee commissioned external research into Outcome Budgeting which was published on 16 May 2002. Following a major consultation exercise, the Committee took oral evidence from the Deputy Minister for Finance and Public Services at its meeting on 11 February 2003. Having heard evidence from the Deputy Minister on the Executive’s approach to outcome budgeting, the Committee has agreed to recommend to its successor Committee that it continues to pursue this issue.

**Bills**

6. In addition to its involvement in the Budget (Scotland) Bill, the Committee reported on the financial memoranda of four Executive Bills: the Criminal Justice (Scotland) Bill, the Water Environment and Water Services (Scotland) Bill, the Mental Health (Scotland) Bill and the Homelessness etc. (Scotland) Bill, and one Committee Bill, the Commissioner for Children and Young People (Scotland) Bill.

**Subordinate Legislation**

7. In the last parliamentary year, the Finance Committee considered two Scottish Statutory Instruments, both of which sought to amend the Budget (Scotland) Act 2002.

**Petitions**

8. The Committee has not considered any petitions in the last parliamentary year.
Innovations/Networks/Miscellaneous

9. The two cross-cutting expenditure reviews mark the first time that a Committee has looked in such depth at one particular area of Executive policy. The Financial Scrutiny Review has been an attempt to provide a substantial and workable legacy document to the successor Committee, which, while not binding its future workload, will allow it to draw upon this Committee’s experience, when it carries out its own inquiries in the future.

Meetings

The Committee met 21 times from 12 May 2002 until dissolution on 31 March 2003. Of these meetings, three were held entirely in private and 15 were held partly in private. Of these 15 meetings held partly in private, the majority were either to consider lines of questioning for witnesses or to consider draft reports.

The Committee held two meetings outwith Edinburgh: in Kirkwall Council Chambers on Orkney and in Portree Council Chambers on Skye. The remainder of the meetings were held in Edinburgh.