Finance Committee

Review of the Budget Process

Submission from Professor Irvine Lapsley

This note addresses three issues:

1. The role of Budgetary Scrutiny at the Scottish Parliament;
2. Effectiveness of Current Budgetary Processes;
3. Resources available/necessary to support Budgetary Scrutiny at the Scottish Parliament.

1. Role of Budgetary Scrutiny

There are three ways of depicting budgetary processes which it is worth reflecting on:

1.1 Planning and Control
1.2 Incremental Budgeting
1.3 Beyond Budgeting.

Of these, 1.1 is most closely associated with the Harvard School, particularly the late Professor Robert Anthony. This particular model has detailed financial plans. It presumes that the linkages between the different segments of the budget are known, are measurable and predictable. This model may offer the capacity to answer “what if” questions, where the impact of resource shifts may be quantified with some confidence.

Comment: This model is a better fit for private sector enterprises. In public sector bodies, the difficulties of measuring outputs and of demonstrating the linkages between different levels of resources and outcomes make this concept of budgeting inappropriate.

Of the above, 1.2, Incremental Budgeting, is most closely identified with public sector organisations. This model draws on the work of leading budgetary theorists (such as Wildavsky and Lindblom), who depict the public sector as inflexible, with limited capacity for change, year on year, and with the substantive opportunity for change being in use of the increment in the budget, rather than the total amount of resources available. The basic rationale of this model is that inbuilt commitments within public sector bodies make dramatic changes difficult.

Comment: This model could depict the budgetary scrutiny processes within the Scottish Parliaments.
Finally, 1.3, the Beyond Budgeting movement originates in Scandinavia. This depicts budgetary processes as too rigid and bureaucratic - an iron cage which has dysfunctional outcomes often described as “unintended consequences”. Within this movement, the major focus is on objectives and key performance indicators, rather than on finances per se.

**Comment:** This model offers a different way of reviewing budgetary impacts at the Scottish Parliament. Its effectiveness is a function of the quality available of performance information.

## 2. Effectiveness of Current Budgetary Processes

2.1 The current budgetary processes represent a very significant advance in levels of budgetary scrutiny which existed prior to Devolution.

2.2 Since the establishment of the Scottish Parliament, the Finance Committee has made steady progress in its investigations and scrutiny of government expenditure plans.

2.3 The current budgetary cycle – the three stage process – does look over-elaborate.

2.4 The budgetary cycle of the Scottish Parliament is subject to vagaries in the timing of Comprehensive Spending Reviews – a fact of life which may impinge on financial planning.

2.5 There are issues over the available level of resources at the disposal of the Scottish Parliament in its review of budgetary plans.

2.6 The specific issue of whether Stage 1 of the budgetary process should be deleted merits careful consideration.

2.6.1 The ethos of the Scottish Parliament is one of *inclusion*. The deletion of Stage 1 may run counter to this idea.

2.6.2 The Subject Committees within the Scottish Parliament contain specialist expertise which *should* enhance the quality of budgetary scrutiny.

2.6.3 There are issues of available time, capacity to interrogate, and prioritization of Subject Committee business, which may undermine the effectiveness of Stage 1.

2.6.4 The deletion of Stage 1 of the current budgetary process may lead to a narrowly focussed dialogue between the Finance Committee and Government. This would not
enhance democratic accountability and would run counter to the idea of an open Scottish Parliament.

3. **Resources Available/Necessary for Budgetary Scrutiny**

There are four options to enhance budgetary scrutiny at the Scottish Parliament:

3.1 Audit Scotland could supply the necessary expertise to enable the Finance Committee (or a combined Audit and Finance Committee) to undertake budgetary scrutiny.

3.2 A separate Budget Office could be established with the Scottish Parliament.

3.3 The Scottish Government’s Finance Office could offer additional expertise and help to facilitate a detailed scrutiny of the Scottish Government’s budget plans.

3.4 The arrangements for the specialist advisers to Scottish Parliamentary Committees could be reconsidered.

Of the above, (3.1) the Finance Committee has a distinct different function from the Audit Committee. A quick fix – not the most logical option. Also, option (3.2) has been mooted many times. This is a problematic option in my view. It may present severe difficulties of recruiting and retention of the appropriate level of expertise. It is also more appropriate for where this office is involved in the detailed build-up of budgets – this duplicates existing expertise within the Scottish Government. As for (3.3), the expertise does reside within the Scottish Government. However, there are issues over the burden of expectation being placed on staff to deliver for both the Parliament and the Government.

This leaves the option of reconfiguring the role of specialist advisers. In terms of operating as advisers operating for single committees, there is a case for a more concerted action approach to the activities of budget advisers which would enhance the Scottish Parliament’s capacity to challenge the Government’s budget proposals.

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