Review of the Scottish Parliament's Budget Process

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EXECUTIVE SUMMARY

This paper is intended to contribute to the review of the budget process in the Scottish Parliament which is currently being undertaken by the Finance Committee. It seeks to answer many of the questions that have been asked in the consultation paper which the Finance Committee has issued to accompany the review. Principal messages from this paper are:

- There is no accepted definition of a “good” budget process.
- Budget processes that are transparent and hierarchical tend to promote fiscal discipline.
- FIAG wanted to promote a more collegiate budget process that was different from Westminster.
- Some have suggested that the budget process be responsive to the extent of the current budget difficulties.
- This issue would become significantly more important were Scotland granted a greater degree of fiscal autonomy.
- The penalties for not passing a budget in time for the next fiscal year would create difficulties, but are not draconian. This is to the advantage of minority governments.
- Stage 1 has been largely unsuccessful. There is a strong case for replacing it with a continuous process which is not at the mercy of the timing of UK Spending Reviews and Scottish elections.
- This new process would include a plenary debate held once during a parliament at a time when the government can both be tested against its stated strategic objectives and when it is still possible to influence its spending priorities before the next election.
- This new continuous process would involve ongoing collection and appraisal of relevant financial information and its distribution to subject committees. This should also make the Stage 2 process more effective.
- Support to the process might be provided by SPICE and/or the budget advisers. The funding might not have to come entirely from the Parliament.
- The process would establish links with Audit Scotland and possibly the Scottish Futures Forum.
- The timing of Stages 2 and 3 cannot be substantially changed. If the scrutiny processes are to be made more effective, the subject committees will have to work more efficiently. They will be aided in doing so, if there are able to use the additional resources described above. There might be a case for embedding the
guidance to subject committees within the written agreement between the Finance Committee and the Scottish Government, so that subject committees are clear what is expected of them before the process starts.

- Mainstreaming financial scrutiny would also require subject committees to give such activity higher priority.

- The Finance Committee should continue to be the lead committee for purposes of budget scrutiny.

- The issue of making the budget process more popular with MSPs, the media and the community might usefully be addressed in the review.

- More financial assistance should be available to those constructing alternative spending proposals, but until more is known about their popularity, it seems unnecessary to change the budget timetable.

- There should be no need to change the timing of Stage 3.

- A balance always has to be struck between fiscal discipline and the inclusiveness of the budget. In present circumstances, at Stage 2, increases in spending in one area cannot be made without reductions elsewhere. This constraint may make participants in the process feel powerless. For example, it would be difficult to understand this constraint from the perspective of an external body interested in a cross-cutting issue.

- This argument suggests that there is a real need for a replacement for Stage 1, where issues are treated in a more strategic fashion.
1.1. The Scottish Parliament is carrying out a review of the budget process over the next few months. This will be led by the Finance Committee. In the course of this review, the Finance Committee will examine:

- the principles underpinning the way each phase that the budget process is managed;
- the timetable for scrutiny and the opportunities for evidence to be taken;
- the relationships between subject committee scrutiny and the Finance Committee’s role, including the means by which alternative spending proposals can be considered; and
- the resources available to support financial scrutiny

1.2. The Finance Committee has issued a Consultation Paper which refers to the report of the Financial Issues Advisory Group (FIAG), which was influential in shaping the budget process of the Scottish Parliament. Its recommendations were endorsed by the Consultative Steering Group on the Scottish Parliament (CSG), which argued that they were:

"designed to provide the Parliament with the opportunity to scrutinise the Executive’s expenditure proposals and to monitor the financial performance of the Executive, whilst at the same time providing the stability and flexibility needed by those responsible for spending public money"

Some of the discussion in this paper will focus on whether FIAG’s aspirations for the budget process have been fulfilled.

1.3. The Finance Committee consultation asks for specific comments in relation to aspects of the budget process. These are: (a) the three separate stages of the budget process and (b) the resources available to support parliament in its scrutiny of the budget. In what follows we examine each of these in turn.
But we begin with a discussion of general issues in relation to budget processes.

2. BUDGET PROCESSES: SOME GENERAL ISSUES

2.1. What is a “good” budget process?

There is no textbook definition of the “ideal” budget process. FIAG adopted a set of principles which it thought the budget process should embody. Its view was that the budget process should be designed:

- to help maximise the cost effectiveness of the expenditure under the Scottish Parliament’s control;
- to 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;
- to provide the Scottish people with understandable, consistent, relevant and timely information; and
- to contain the overhead and compliance costs associated with the procedures.

2.2. These principles do not say much about fiscal discipline, the perennial problem of national government and those sub-national governments which have substantial powers to control taxation and spending. FIAG clearly wanted to distance itself from the strong fiscal discipline exerted by the Treasury in respect of the UK economy. It argued that:

“the Westminster system has not succeeded in promoting a constructive discussion of budgetary and expenditure priorities or a sensible dialogue between Executive and Parliament … As a result, the UK Parliament has no meaningful input and the approval of expenditure is made ex post facto.” (FIAG Report para 3.7).

2.3. FIAG criticised the lack of detailed scrutiny of the budget by the UK Parliament and its failure to focus parliamentary debates on expenditure proposals rather than on general policy (FIAG Report para 3.10). But FIAG endorsed the UK system of parliamentary control of government spending through budget procedures. This system was accepted and implemented in the Scottish budget process. (FIAG
2.4. To distance the Scottish Parliament from Westminster practice, FIAG clearly felt that a greater degree of dialogue between the executive arm and parliament would be desirable. The implication is that greater dialogue will increase the Scottish Parliament’s involvement in budget decisions. Indeed, the FIAG proposals for Stage 1 suggest:

“Stage 1 consideration should include the opportunity for public input through subject committees. Local authorities and public spending bodies should have the opportunity to comment as part of this process. (FIAG Report para 3.22)

2.5. Such considerations clearly have merit in that transparency of the budget is increased through wider public involvement. If this greater public input resulted in significant change to budget outcomes, the average Scottish elector might want to know how far the budget outcomes reflect his/her preferences rather than sectional interests which make a convincing case to subject committees. If it were true that a broader-based budget process distorted outcomes in favour of sectional interests, then the public might argue for strengthening the budgetary role of the executive arm on the basis that its spending proposals had been tested through the ballot box.

2.6. A related argument is put by Alesina and Parotti3, who suggest that fiscal discipline is enhanced by strengthening the role of the executive branch vis-a-vis the parliament and of the Treasury Minister vis-a-vis the rest of the executive branch. In describing budget procedures, they argue that:

"Hierarchical" institutions are more likely to deliver fiscal discipline, but on the other hand, they have a tendency to produce budgets that are tilted in favor of the majority. "Collegial" institutions have the opposite features. They guarantee the rights of the minority and emphasize "checks and balances," moderation, and compromise but may delay the implementation of "tough" fiscal adjustments when needed. (P 402)

2.7. The FIAG proposals suggest that the Scottish Parliament should follow a more "collegial" approach than Westminster. Alesina and Parotti argue that a more "hierarchical" structure is required when fiscal discipline is necessary.

2.8. Taking this argument a stage further, Alesina and Parotti⁴ argue in favour of making the budget process responsive to the fiscal situation. They suggest that when fiscal problems are pressing, a hierarchical procedure is implemented, where the power of the executive arm is strong. On the other hand, when the fiscal environment is relatively benign, a more collegiate approach, (i.e. similar to that proposed by FIAG) is more appropriate. In their model, the decision as to which regime to apply is triggered by the ratio of government debt to GDP. In Scotland, since the government does not have the power to issue debt, the trigger could relate to the size of the real increase in grant coming from Westminster as a result of the spending review.

2.9. Another perspective on this is that budget processes are more likely to allocate public resources efficiently if there is an effective challenge function in place. In a hierarchical system, that is often provided internally by a body such as HM Treasury, In a collegiate system, such as the US, an external challenge function is provided by the Congressional Budget Office.

2.10. The key aspect of these challenge procedures is that budgets brought by the executive arm are contestable. If the Treasury or the legislature can credibly threaten to amend or reject budget proposals, then spending ministers are much more likely to allocate resources fairly and efficiently. These threats do not necessarily need to be acted upon: the existence of the threat is the discipline device. This discussion will be of relevance when we come to discuss alternative spending proposals.

2.11. At present, the revenue available to the Scottish Government is highly predictable on an annual basis. Spending allocations can be made in the

knowledge that funds are available to support expenditure up to the allocated budget. The Public Finance and Accountability Act (2000) prevents the Scottish Government from spending more than the allocation by the UK government to the Scottish Consolidated Fund. Therefore, given that the Scottish Government's proposals allocate the full Treasury grant to its spending priorities, any proposals to increase spending by the Parliament (or other bodies) mean that spending must be cut from other programmes.

2.12. Whether modifications of the Scottish Government's budget proposal actually occur depend not only on the political configuration of the Parliament but also on the mechanism for bringing forward alternative spending proposals. Since losers tend to object more to cuts than winners support increased spending, a two-stage process where the government makes a proposal that is then modified by the Parliament may not command popular support. This might make politicians reluctant to press for budget amendments unless they could make savings in areas where those who would lose are, for some reason, less able to object. An example might be that the main beneficiaries from a road building programme might be future generations. They cannot contribute to current budget processes. Thus proposals to increase spending in some areas might be proposals for reductions in the road building programme.

2.13. On the other hand, a process which more involved Parliament in the formation of initial (Stage 1) proposals might command support among those who believe they could benefit. But any such mechanism has to be made consistent with overall fiscal discipline and with parliamentary timetables. Such a process is consistent with the idea that the budget is contestable, which is mentioned in para. 2.10.

2.14. If Scotland were granted an increased level of fiscal autonomy or if it invoked its power to vary the rate of income tax, revenue streams would no longer be predictable. Greater uncertainty would favour a more hierarchical budget process. This argument is relevant if this review of the budget process is to be robust to changes in Scotland’s fiscal arrangements.

2.15. Another argument concerns the budget and minority government. Minority government increases the probability that the budget bill will not pass
through Parliament by the beginning of the financial year. While this has never happened, the emergency arrangements under the Public Finance and Accountability (Scotland) Act 2000 would then be invoked. To quote the Act

“Until there is in force a Budget Act authorising that use of resources for the current financial year—

(a) any purpose for which the use of resources was authorised for the previous financial year by Budget Act shall be taken to be a purpose for which the use of resources is authorised for the current financial year, and

(b) the use of resources for any purpose for each calendar month of the current financial year must not exceed whichever is the greater of -

(i) one-twelfth of any amount authorised in relation to that purpose by Budget Act for the previous financial year, and

(ii) the amount of resources used for that purpose in the corresponding calendar month of the previous financial year; “

2.16. Effectively the penalty for not passing a Budget Bill is that public services will be funded on the same budget the previous financial year, unadjusted for inflation. Services whose within-year funding varies significantly (e.g. winter road maintenance) will be further disadvantaged by the provision that spending should be the lesser of one-twelfth of the previous annual allocation and the amount spent under this programme in the previous financial year.

2.17. For minority governments, an important issue is the political cost that they might bear for failing to ensure that a budget is passed in time for the next financial year. This cost is likely to be greater, the larger is the “budget crisis” that such failure brings about. FIAG was anxious to avoid such crises: hence its intention was that public services could largely continue their business in the absence of an agreed budget. Because the political cost of not passing a budget bill before the start of the next financial year is not cataclysmic, minority governments are more likely to be able to retain power. This helps minority governments whose ability to successfully guide a budget bill through Parliament is less than a majority or coalition government, other things being equal.

2.18. Note also that it may not be the minority government whom the electorate may blame for the failure to successfully proceed with a budget bill. Other parties may be held responsible: the political dynamic of such a situation is unpredictable.
2.19. Minority governments may have to make accept amendments from other parties to ensure that the budget bill is enacted. While this process will lead to successful amendment of the budget bill, it is not perhaps what FIAG envisaged when it recommended a more open budget process. This review might consider mechanisms to ensure that the evidence base (including costs and strategic justification) for such amendments is presented to Parliament in a coherent and timely fashion.

2.20. Following these general remarks, the following sections examine the three stages of the budget process in turn.

3. STAGE 1

3.1. The review of the budget process invites comments on the following aspects of Stage 1

- **The current arrangements**
  
  What contribution does Stage 1 make to the scrutiny process? Should Stage 1 continue to take place in Spending Review years only? Should the Budget Process be linked to the UK Spending Review in this way?

3.2. FIAG and the Consultative Steering Group (CSG) of the Scottish Parliament intended that Stage 1 would involve:
   
   (a) A discussion of “strategic priorities for the following financial year
   
   (b) Consultations with the people of Scotland. FIAG expected that a review of strategy and priorities would enable interested parties such as local authorities and pressure groups to make their case to the relevant subject Committee.

3.3. The original intent was that Stage 1 would be carried out on an annual basis. However, at the UK level, strategic priorities are set by the Spending Review, which occurs every two years. Spending reviews set the course of the Scottish budget for a three-year period. Thus there was little point in having an annual strategic review. In 2005, following the revision of the Written Agreement, the timing of Stage 1 was adjusted to coincide with Spending Reviews. Further difficulties arose when the Spending Review timetable changed to odd numbered years, causing it to clash with the
Scottish elections. On present plans, there will be a five-year interval between the last Stage 1, held in 2004, and the next, which is likely to occur in 2009.

3.4. Similar difficulties will arise in 2011 if another Spending Review is released four years after the September/October 2007 review, since it will again be published a few months after the next Scottish election. This leaves the party or coalition in power effectively having to make very decisions about its three-year spending programme by November in order to meet the Scottish Parliament’s timetable for the next budget. This is highly unsatisfactory. In addition this schedule means that there is inadequate opportunity for wider involvement in the budget process. As has already been mentioned, the FIAG report strongly emphasised the desirability of a more transparent budget process in Scotland compared with Westminster.

3.5. My conclusion is that, irrespective of the timing of the Spending Reviews, Stage 1 is not operating satisfactorily. This is unfortunate since its absence impedes Parliament’s ability to discuss the strategic directions being followed by government. Following the earlier discussion, the increased transparency which would follow from a successful Stage 1 would both strengthen the budget process and is likely to increase the electorate’s awareness of, and engagement with, the political process in Scotland.

- **Alternative arrangements**

  *Is there a viable alternative to the current Stage 1 arrangements that would allow a strategic examination of future spending priorities?*

3.6. One approach is to focus the Stage 1 process on the overall aims and objectives of the executive arm’s strategy. In terms of the present Scottish Government, this would imply testing outcomes and proposals against its “purpose” and “strategic objectives”. In terms of the previous administration, the “partnership agreement” might have been the appropriate reference point for Stage 1 scrutiny. Different administrations have different styles in respect of the published level of detail of their planned programmes. The Parliament might take a view about the minimum amount of detail that, in its view, would be consistent with adequate Stage 1 scrutiny.
3.7. FIAG’s conceived of the budget as a series of events rather than a continuous process. However, strategic direction seems such a vital aspect of budgetary policy that it cannot be subject to the vagaries of the parliamentary timetable. An alternative is therefore to make Stage 1 a continuous process. In the US, where the budget process would be described as “collegiate” rather than “hierarchical”, continuous scrutiny is achieved through the institution of the Congressional Budget Office. This body comments on the President’s budgetary proposals, makes its own economic forecasts and comments on particular policies. In 2007, it issued 46 reports. For example, its May 2008 report on capital budgeting covers some ground that is common with the Finance Committee’s current investigation into this area.

3.8. However, the cost of maintaining continuous budget scrutiny through the CBO is high. It is a large organisation: its budget in fiscal year 2008 is $37.3m and it employs around 230 people. It has its own panel of economic advisers and a panel of health advisers.

3.9. In Scotland, a continuous Stage 1 process would mean that resources would be devoted on a continuing basis to scrutinising the overall government strategy. This would have significant advantages for the Parliament in raising levels of awareness of the principles underlying the Government’s budget strategy.

3.10. However, benefits from this would only be realised if the knowledge gained through this process is used to test government plans through the parliamentary process. One way of doing this would be to schedule a plenary debate or series of debates midway through a government term. This would allow for reflection on performance thus far, while allowing the outcomes of the debate to influence future budgetary decisions. At other times, those working on the government’s strategic direction could assist subject committees with regular financial scrutiny, support cross-cutting reviews and produce regular commentary on government progress against objectives.

3.11. Mechanisms for providing continuous Stage 1 support include: expansion of SPICE and/or increased use of part-time advisers along the lines of the
current group of budget advisers. Such activities might not need to be funded entirely by the Parliament. External support through knowledge transfer funding from bodies such as the Scottish Funding Council might be possible.

3.12. Another key linkage is with Audit Scotland. CSG recommended the establishment of Audit Scotland, primarily to ensure that public bodies’ accounts were audited in a consistent manner. However, information collected by Audit Scotland is not formally used to inform parliamentary scrutiny of the budget process. Formal or informal links between Audit Scotland and a revised Stage 1 process would seem to have merit and be worthy of exploration.

3.13. A final link that might be investigated with the Scottish Futures Forum. This organisation has very much a participative emphasis, and promotes blue sky thinking. It may be helpful to try to tie this approach into the strategic discussions that might be had round a revised Stage 1. One of the members of the Finance Committee (Alex Neil) is on the board of directors of this organisation.

- **Founding Principles**

  How do the current arrangements fit with the key principles of the CSG and FIAG?

3.14. The current contribution of Stage 1 to the budget process is limited due to timing constraints. Its contribution is significantly less than envisaged by FIAG. The current principles underlying Stage 1 are consistent with those of FIAG and CSG: they just don’t work in practice.
4. **Stage 2**

4.1. In respect of Stage 2, the review seeks answers to the following questions:

- **The time available for subject committee and Finance Committee scrutiny**

- **Working within the constraints imposed by the UK government budget timetable and the need to pass the budget bill by the end of the financial year, what is the best way to organise scrutiny of the Scottish Government’s Draft Budget?**

4.2. The annual timetable for the budget process is shown in Table 1 below. This has not operated in full since 2004. If Stage 1 was removed from the annual cycle, then the timetable could be altered to provide additional time for Stages 2 and 3. However, it is not clear that a large amount of free time could be made available as a result. The key constraint would be whether Stage 2 could be brought forward before September. This would require earlier publication of the draft budget. If July and August are impossible due to the summer recess, then a June publication might initiate the process. Not only might this run into difficulties with the UK timetable, the process would still be likely to stall during the summer recess and hence little additional time would be gained. It follows that if the time available for the budget process cannot be extended, then more efficient use must be made of the available time if budget scrutiny is to be improved.

**Table 1: Timetable of the Scottish Budget process**

<table>
<thead>
<tr>
<th>Date</th>
<th>Process</th>
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| Mar/Apr:   | Publication of Annual Evaluation 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 2    |                                                                                                                                              |
| September: | Executive publishes draft Budget and Spending Plans  
Subject committees examine and send reports to Finance Committee  
Finance Committee considers draft budget and                                                                          |
<table>
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<th>December:</th>
<th>Finance Committee Report; Mid Dec.; Parliament debates Report</th>
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<tr>
<td>January:</td>
<td>Scottish Government produces Budget Bill (having considered Parliament's recommendations); Budget Bill Goes Through Legislative Process</td>
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4.3. From para 4.2, it is clear that there are difficulties associated with adding extra time to the budget process at either end. The question then is whether existing time can be used more efficiently. If the guidance to subject committees was formalised, perhaps by becoming part of the Written Agreement between the Finance Committee and the Scottish Government, then subject committees would not need to wait until the guidance is published (as some have done in the past) before initiating scrutiny. Again this can be aided by the timely provision of information by the Scottish Government, ready appointment and availability of budget advisers and willingness on the part of the subject committees to prioritise budget scrutiny. It could also be aided by the provision of the extra resources for Stage 1 that were discussed in para. 3.5. The argument is that additional support for Stage 1 would mean that committees would already be briefed on the strategic issues when Stage 2 begins. Perhaps some co-ordinating group could be set up involving clerks, SPICE and budget advisers to ensure clear flows of information to the committees and between them. Staff involved with the Finance Committee might be expected to take a lead in this process.

4.4. Stage 2 is where more detailed scrutiny of draft budget proposals takes place. This will not be possible unless relevant information, both for the budget proposals and for actual spending in past years, is available to relevant committees on a timely and consistent basis.

- **What is the best way to deal with any delays in future UK Spending Reviews?**

4.5. Delays in future UK Spending Reviews cannot easily be anticipated. However, if there were overwhelming reasons to expect a delay, the Scottish Government might produce a contingent budget that would be based on best estimates of the likely grant from Westminster given the economic situation and likely Barnett consequentials. The Parliament would have to accept that the draft budget would require to be amended when information from the Spending Review did become available. The Scottish Government might give an indication which budgets might be cut in the case of the allocation being less than expected and which might be expanded if there was an underestimate. (Also note the discussion of the case that
Spending Reviews continue to follow a two-year cycle based on the timing of the last published review in paras 3.4 and 3.5)

- **What should be the balance of responsibility between the subject committees and the Finance Committee?**

4.6. Parliament should have a single point through which its response to the government’s budget proposals is focussed. The most obvious location for this is the Finance Committee. Sharing this responsibility could lead to dilution, reduced effectiveness and loss of fiscal discipline. This places a particular responsibility on the members of the Finance Committee relative to those on the subject committees. On the other hand, this arrangement places a duty on subject committees to respond in a timely and consistent way to the Finance Committee.

- **Is the time currently available for subject committee and Finance Committee scrutiny adequate?**

4.7. Given the importance of the budget process to Scotland and to the Parliament, there is a strong case for increased scrutiny. However, given the argument in para 4.2, it may not be possible to increase the overall time for scrutiny. This implies that scrutiny may have to be more intensive and more efficient while staying within the same timetable. I have various suggestions to assist with this that are contained in other responses.

- **If not, the Committee would be interested to hear views on how much extra time should be set aside, and how that might be done, taking into account the constraints detailed above.**

4.8. The process might be made more efficient by having more resource available to the Parliament dedicated to the budget process. This could be used to support a revised Stage 1 process, but also to aid scrutiny within Stage 2. In particular, it could be used to provide background information on trends and developments in spending relevant to each of the subject committees.
• **The time available for plenary debate**
  • **Whether time should be set aside for more plenary debates alongside committee scrutiny?**

4.9. It is not clear how such debates would advance the process of progressing the budget. Perhaps a more important issue is that of raising the profile of existing budget debates. To quote one member of the committee:

“It is also worth noting the low level of interest that is generally accorded to a process of such importance—not just by MSPs but by the media and the wider political community. There is something wrong when the spending of more than £30 billion seems to attract so little scrutiny both outwith and within the Parliament.” (Derek Brownlee talking in the Stage 1 Debate 2007)

There is a strong case that this review should direct some of its attention to this issue, since interest in the budget debate would seem to be an essential prerequisite for transparency of the budget process.

4.10. Additional plenary debates might have a role in increasing public awareness of budgetary issues, but there are perhaps other, more innovative ways of achieving this objective that the Committee might wish to explore.

• **If so, what form should any extra debates take?**

4.11. There would be a strong case for timetabling additional plenary debates if a revised Stage 1 process was put in place to review the government’s performance and strategic plans.

• **Rationalisation of debates**
  • **Should this practice of rationalising the two debates (on the Finance Committee’s Report and Stage 1 of the Budget Bill) be continued in future years? If this was applied to a “normal” Spending Review year, then it may allow some extra time for subject committee and Finance Committee scrutiny.**
4.12. Rationalising the debates on the Finance Committee report and on Stage 1 conflates two different parts of the budget process. The Finance Committee report is a response to the draft budget, and the Scottish Government would not be able to respond to the Finance Committee's recommendations before the Budget Bill is published.

- **Alternative Spending Proposals**
  
  - *Do the scrutiny process and the timetable allow for sufficient opportunity to consider any alternative spending proposals?*

4.13. There is a balance to be struck between assisting the consideration of alternative spending proposals and the need to put the budget bill in place before the financial year begins. Clearly, provision of timetabled time and additional resource for alternative spending proposals makes such proposals more likely. Subject committees may well need to set aside additional time to more fully discuss alternative spending proposals. But in respect of the Finance Committee and plenary debate, it may be worth evaluating how many proposals come forward before providing more time for scrutiny.

- *Does the system provide an appropriate balance between a desire for budgetary stability and an opportunity to influence change?*

4.14. See my remarks in Section 1 regarding fiscal discipline

- *Formal Guidance – although alternative spending proposals have usually been mentioned in the Finance Committee’s “Guidance to Subject Committees” and in the Written Agreement, there is no detailed, formal guidance on their format. As part of this review, should guidance be developed or should there be something more binding?*

4.15. There is a strong argument that subject committees should respond to the Finance Committee in a consistent fashion since this means that their proposals will be treated consistently. Thus, for example, it is not possible to be even-handed when committees adopt different approaches to making proposals to amend the budget,
such as suggesting that savings are made from outwith its remit.

4.16. Hence there is a clear argument for formal guidance. It is also worth investigating whether time-savings could be made if the guidance was fixed from year-to-year, so that subject committees would have a clear idea from the outset of what was expected of them by the Finance Committee.

- Resources – the Committee would be interested in views on how the impact of any proposals can be adequately assessed by Committees and whether sufficient resources are available to support this?

4.17. Alternative proposals cannot be adequately assessed by committees, because they are unlikely to have access to all of the information sources required to assess costed proposals. Availability of more resources to facilitate access to such information would help both the formulation and assessment of alternative spending proposals. (See my other remarks on additional resources).

- Founding Principles
  - How do the current arrangements fit with the key principles of the CSG and FIAG?

4.18. Perhaps the members of CSG and FIAG would be disappointed with the level of parliamentary and external involvement with the budget process. Two of the key impediments to achieving these aims are: (1) the low profile of the budget process as a whole and (2) the inadequacy of the resources available to the parliament to respond in a measured way to the different stages of the process.

4.19. The question of whether there should be additional plenary debates hinges on the value of such events. Would they help progress the budget? At present the Finance Committee can propose alternative spending proposals. Would it be the case that one plenary would be insufficient to deal with this?
5. **Stage 3**

5.1. In respect of Stage 3, the review seeks answers to the following questions:

- **Time available**
  - Whether there is sufficient opportunity earlier in the process for Parliamentary influence on the budget, thereby allowing the assumption that Stage 3 should be a short formal process to continue?

5.2. My earlier remarks suggest that the notion that Parliament should be able to influence the budget has negative as well as positive aspects. Where fiscal discipline is an important issue, Parliament’s influence may not be benign. However, there are very strong arguments that the budget process should be transparent and contestable. A re-establishment of Stage 1 and additional resources to support Stage 2 scrutiny would, if successful, allow Stage 3 to continue as a short formal process.

- Do the processes strike the right balance between a desire for budgetary stability and allowing reflection and opportunity to influence change?

5.3. See my earlier remarks on fiscal discipline. If the fiscal picture is relatively rosy, there is much to commend the collegial approach with greater involvement from Parliament and third parties – though one must ensure that the process is not “captured” by specific interest groups. If spending has to be tightly constrained, then a more hierarchical approach is likely to be required.

6. **Advice and Resources Available to Support Budget Scrutiny**

6.1. In respect of advice and resources available to support budget scrutiny, the review seeks answers to the following questions:

- **The current system**
  How well does the current system of budget advisers for individual committees operate in practice?

6.2. This was the first year that each subject committee appointed an adviser. The budget process for this financial year was extremely difficult for a number of reasons such as the late arrival of the Spending Review; the difficulty of obtaining
information and the uncertainty as to what the “concordat” with local government meant for budgetary scrutiny. Having said that:

- The advisers worked together well as a group
- They appear also to have interacted well with their respective committees
- Groups of them met together on four occasions to discuss aspects of the budget process
- These meetings also involved the clerks, who found the interaction very positive
- Looking forward to next year, we would hope that with more information available, and a less frenetic timetable, there will be more opportunity for interaction during the scrutiny process so that there is more exchange of information at this critical time.

**Mainstreaming financial scrutiny**

What would be the resource implications be if subject committees were to “mainstream” financial scrutiny in their inquiry work throughout the year?

6.3. A minimalist way to resource the “mainstreaming” financial scrutiny would be to put subject committee budget advisers on longer contracts. This would be relatively inexpensive. However, there are other resource implications: subject committees would have to meet more frequently or give up some activities in order to do more financial scrutiny.

6.4. A slightly more elaborate approach would be to invest some additional resources in the co-ordination of the activities of budget advisers. This might not only result in subject committees following a more uniform approach to financial scrutiny, it might also help with the analysis of cross-cutting issues – a perennial problem for subject committees and the Finance Committee.

**Additional resources**

6.5. The issue of additional resources for financial scrutiny is central to this current review of the budget process. FIAG did not substantially consider this issue. In a sense, the budget is moving into new territory where it is confronting the fact that the aspirations to have an open and collegial budget process cannot be achieved at zero cost.

6.6. There is little point in being prescriptive about how precisely additional resources might be applied to the existing system. The most obvious approach would be to build on the expertise that already exists within SPICE and the budget advisers.
How precisely this might be taken forward would require a detailed assessment of the cost-effectiveness of different models. One way to assess this might be to take a more detailed look at the systems that exist in other parts of the world.
Follow-up meetings with Budget Advisers 18 and 25 April 2008

Introduction

1. The purpose of these meetings was to seek views on the budget process from budget advisers to subject committees and to determine whether any lessons can be learned for the budget process in future years. The outcomes of these meetings could then be fed into the Finance Committee’s review of the Budget Process.

Purpose of Budget Scrutiny

2. The groups felt that the fundamental question of what the purpose should be of budget scrutiny needed to be addressed before it could be determined what a revised process should look like and what resources should be devoted to it. The questions were whether the process should focus on changing the budget or whether it should focus on testing and challenging it and whether to examine what money is being spent on or how effectively it is being spent.

Focus of budget scrutiny

Stage 1

3. If the view were taken that committees should take on more of a testing or challenge function, then it was considered that the budget process might have to take on a different focus. The group recognised that Stage 1 of the process had originally been set up to take a strategic view of the Scottish Government’s priorities but believed this had not worked well, particularly as there had been no Stage 1 since 2004 (although the group appreciated the rationale at that time for changing the process).

4. However, the groups believed that there should be some way of undertaking a strategic appraisal of the budget, albeit that it might not take the form of a formal stage in the budget process. The issue was discussed of whether committees could be encouraged to “mainstream” financial consideration into any inquiries they were undertaking (this was something that the Session 2 Finance Committee recommended in its legacy paper).

5. However, the group recognised that there could be some practical difficulties with “mainstreaming” financial scrutiny as outlined above. Committee inquiries focus on specific issues and therefore, while it may be possible to make budgetary recommendations in the particular area covered by the inquiry, it may not have been possible to examine other parts of the budget within the committee’s remit. In addition, overall priorities generally cut across more than one budget head and as past Finance Committee reports have commented, it can be very difficult to identify the level of resources applying to cross-cutting priorities. Also, if committees want to look at how money has been spent, then they will require baseline information and the
Scottish Government would need to produce something akin to the Annual Evaluation Report to provide such information.

6. In addition or as an alternative, a suggestion was made that subject committees could examine the new National Performance Framework by choosing a particular subject area and questioning the Scottish Government on whether it is achieving the outcomes set out in the Framework.

7. Such work could take place between March and June, with plenary debates to supplement the strategic work carried out by committees. It was suggested that rather than undertaking anything on an annual basis, this “strategic challenge” work could take place in year 2 of the four year Parliamentary session. The rationale for this was that any significant changes in policy usually require a long lead-in time and that if Parliament was of the view that there should be a redirection of policy/priorities there would be sufficient time for the Scottish Government to do this.

Stage 2

8. It was suggested that scrutiny of the Draft Budget could concentrate on checking that resources are being put into the Scottish Government’s stated priority areas. The group felt that if the focus on budget scrutiny were to shift in this direction then it was questionable whether asking committees to come up with alternative spending plans would still be relevant.

9. In addition, a question was raised as to whether it was realistic to expect subject committees to come up with precise alternative spending proposals, costing increases and subsequent decreases, particularly as it would be difficult ever to have the level and breadth of detailed information required. It was noted that the alternative proposals put forward by the Finance Committee in the 2008-09 process did not seek to identify areas from which savings could be made and instead, it was left to the Scottish Government to cost the proposal and corresponding savings.

Other issues

10. The group also considered the process of scrutiny in the context of Single Outcome Agreements. It noted the Finance Committee’s recommendation that local authorities should be required to produce a statement explaining any significant changes in expenditure patterns and the Scottish Government’s response that this type of reporting would not be appropriate as the focus should be on securing outcomes. It also noted that the Scottish Government was in discussion with COSLA with a view to identifying baseline data for the indicators and targets that are applied to local authorities. It was suggested that any review of budget scrutiny would need to take account of the impact of Single Outcome Agreements.

Resources

11. The group considered that the fundamental questions about the system of budget scrutiny needed to be answered before the resources required could be determined. For example, if committees were to mainstream financial
considerations into their inquiry work, then additional resources would certainly be required. However, the Parliament would also need to consider whether it wants to focus its scrutiny on looking at what the money is being spent on (is the Scottish Government doing the right things?) or on looking at how the money is being spent (is the Scottish Government doing what it says it is?). The answer to this question would help to determine what information and resources would be required given that there would be a clear distinction between (a) provision of figures and interpretation of those figures and (b) advice and information in order to analyse particular policy areas.

‘Challenge’ function

12. At Westminster, the challenge function essentially sits with the Treasury. However, the Treasury Select Committee does have influence in making the Government account for its expenditure. In addition, a body like the Institute for Fiscal Studies is generally recognised as an independent expert and its publications do contribute to the debate and to Parliamentary and Government thinking. It was noted that there was not the same “think tank” community in Scotland.

13. The Congressional Budget Office performs the challenge function in the US and (unlike the Treasury) it is situated outside Government.

14. In looking at these issues, consideration would have to be given to what additional evidence could be provided, given that budgetary information is held by the Scottish Government and evidence is generally based on that information. One suggestion was that academics could perhaps have access to wider information such as datasets held at a UK level but not in Scotland which could assist in the scrutiny process. However, another view was that budgetary assistance should be funded and housed within the Parliament, supported both by independent advisers and SPICe.

Budget Revisions

15. One of the groups also considered the issue of in-year budget revisions. Apart from detailing any in-year transfers, these revisions allocate any additional money arising from ‘Barnett consequentials’. It was felt that because of the potential significance of these consequentials that there should be additional scrutiny (currently these are only examined by the Finance Committee and Subordinate Legislation Committee). This additional scrutiny could be carried out through the relevant subject committees (although the group appreciated that as these revisions are Statutory Instruments and therefore have to be scrutinised with a defined period then there could be some issues of timing) or though additional Parliamentary debating time.