



# **A Response To The Finance Committee's Review of the Budget Process**

AT THE HEART OF  
PUBLIC SERVICES 

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## **1.0 GENERAL COMMENTS**

1.1 Parliamentary scrutiny of Government finance is a vital part of its role in holding the Government to account. This is because ultimately weaknesses in financial and performance management will lead to failures in formulating and implementing Government policy. The work of select committees is the most important way in which Parliament carries out its financial scrutiny.

1.2 The defined purpose of financial scrutiny<sup>1</sup> is :

- To make Government's financial decisions transparent
- To give those outside Parliament the opportunity to comment
- To have the opportunity to influence the Government's financial decisions
- To hold the Government, individual departments and other public bodies to account, thereby contributing to an improvement in financial decisions & management and improved value for money (VFM) in public services

1.3 MSPs need to see financial scrutiny as worthwhile and this will require a sensible division of tasks between subject committees and Parliament itself. It is natural for debating opportunities on financial matters to become focused on general policy rather than detail. However, Parliament needs opportunity to debate specific expenditure items (and not just in subject committees). The detailed committee work should contribute to full house debates.

1.4 The budget process should be seen as a key process which works best when both Government and Parliament co-operate within an agreed framework. It is therefore necessary to look at how Government works within the current agreed framework and for consideration to be given to improvements on both sides.

1.5 In an OECD Paper entitled Budgeting in Canada<sup>2</sup>, the author describes how Canada has normally implemented change by 'piloting' or road testing changes before full scale implementation and this appears to work for Canada. We would encourage the Parliament to equally trial any changes which evolve from this review prior to whole scale implementation.

1.6 Our approach has been to focus on:

- The resources available to support the Parliament in its scrutiny work as outlined in paragraph 5 of the consultation document
- Providing examples from other countries which may illustrate how budget scrutiny can best be organized and supported
- Given the necessity for both Government and Parliament to co-operate within an agreed framework, we have drawn attention to a number of improvements required on both sides
- Some wider issues which need to be considered

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<sup>1</sup> House of Commons Liaison Committee "Recreating Financial Scrutiny" Second Report of Session 2007-2008

<sup>2</sup> Budgeting in Canada <http://www.oecd.org/dataoecd/52/61/40140423.pdf>

## **2.0 RESOURCES AVAILABLE TO SUPPORT BUDGET SCRUTINY**

### **Options for increasing Support: Established permanent vehicles**

2.1 Many overseas Parliaments either use, or wish to use, independent experts during the budget process in order to avoid over-reliance on Government data and allow more independent scrutiny.

2.2 Independent expert roles can typically include :

- Determining, examining, verifying or proposing the economic assumptions used in the budget model (e.g. from a macro-economic viewpoint)
- Costing /Verification of alternative budget proposals
- Testing / verification of Government spending initiatives, plans or claims

2.3 While the management of the economy is not a devolved matter, the Government's proposals for the introduction of a local tax may result in the Parliament having to consider the macro-economic impact of taxation decisions in the future.

2.4 At the moment the subject committees have been making use of independent advisors. Other Parliaments, including Westminster, rely on a more formal and permanent system of support. A clear issue in this respect is not whether the permanent unit is truly 'independent' of Government but whether its work is seen as, and trusted to be, completely unbiased. Such trust must be earned and can be easily lost.

2.5 In the Netherlands<sup>3</sup> the Central Planning Bureau (CPB) plays a key role in the development of the budget policy contained in the Coalition Agreements. The CPB is a very unique institution. It is a Government institution but is completely independent; it commands the trust of all political parties and the public at large. Prior to elections, the CPB will issue its economic forecast for the coming four years. All political parties use the CPB economic assumptions as the basis for their policy platforms. The larger political parties submit their policy platforms to the CPB ahead of elections for costing and to assess their economic impact. When new policies, or policy compromises, are being negotiated, the CPB will assess their impacts as well.

2.6 In Norway<sup>4</sup> Statistics Norway is independent from the Government. Some of its research is requested by the Government, but most of it is done independently. Part of the research of Statistics Norway is funded by the Research Council where Statistics Norway competes with other research institutions for support. Since 1990, Statistics Norway is also obliged to serve political parties in Parliament, who can ask for calculations and model simulations of certain policy proposals. Such an approach if adopted here could assist the subject committees to develop alternative spending proposals.

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<sup>3</sup> Budgeting in the Netherlands <http://www.oecd.org/dataoecd/24/34/39997918.pdf>

<sup>4</sup> Budgeting in Norway <http://www.oecd.org/dataoecd/53/13/40140177.pdf>

2.7 Some information in Norway however continues to be provided by the Ministry of Finance which has a long tradition of providing objective and unbiased information to Parliament. Perhaps within the Scottish system, consideration needs to be given to the relationship which Parliament and the subject committees have with the Government's Director of Finance.

2.8 The ability of Westminster's select committees to conduct effective financial scrutiny has been greatly increased by the establishment 5 years ago of the committee office scrutiny unit. It's on a small scale compared to the Government accountability office in the USA and contains about 20 staff representing a mixture of different skills.

2.9 Part of the scrutiny unit's over-arching function is to assist select committees in performing financial scrutiny of Government. This includes reviewing departmental reports and highlighting areas that select committees may like to investigate further with the relevant Government department.

2.10 When reviewing reports, they check for compliance with treasury guidance, analyse the financial information presented and review the reported performance against targets. They assist committee staff in drafting written questions for the departments, briefing MPs for oral evidence sessions or preparing committee reports.

2.11 The establishment of the unit sought to change the nature of the advice required by MPs – less time would be spent merely interpreting what the Government's reporting documents are saying and more explaining the significance of what they contain.

### **Options for increasing Support: Training**

2.12 The conclusions in the paper "Recreating Financial Scrutiny"<sup>5</sup> was that the problem is not the Houses' (Commons/Lords) powers in financial matters but the ability and willingness of the Houses and members to scrutinize such matters in the degree of detail required to hold the Government to account. One way of increasing members capacity for financial scrutiny would be make more training available for them.

2.13 Public trust and confidence in the Parliament will increase if financial scrutiny is done well. Parliamentarians need both skills and knowledge to do their jobs well. Skills need to be developed continually to improve performance in the function of financial scrutiny. MSPs must have the ability to scrutinize and challenge information received from the Government. Establishing scrutiny units like those described above will improve the knowledge of MSP's. Such units can also help support subject committees prepare for evidence sessions. But ultimately it is the MSP him/herself who must engage in the scrutiny of the actual witnesses.

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<sup>5</sup> House of Commons Liasion Committee Parliament and Government Finance  
Second Report of Session 2007-2008

## **Resources available to support Government's own budget scrutiny**

2.14 Given the necessity for Government and Parliament to co-operate within an agreed framework, it is important to look at the resources which Government has available to support its own budget scrutiny.

2.15 It is worth drawing attention to the findings of the Howatt Review.<sup>6</sup> The Minister for Finance and Public Service Reform appointed the group to review the Scottish Executive's level 3 budgets (except local authority expenditure) to identify any that did not fit with the Executive's commitments and priorities or were not performing well. They were also tasked with proposing action, where appropriate, and to identify the implications of any proposed changes.

2.16 One of the conclusions of the review was that the Executive's approach to financial planning needed to have a more robust challenge function, strongly supported by the Director of Finance. International experience would support this recommendation. In the Netherlands<sup>7</sup> for example, Government departments are not good at 'volunteering' savings. As a result the Ministry of Finance has become knowledgeable about departmental operations and often suggests what departments can do to make savings. In Sweden<sup>8</sup> the Ministry of Finance challenges and queries department estimates for programmes – for example what assumptions were used and how realistic they are. Departments often over-estimate requirements. The Ministry of Finance provides cabinet with recommendations on the 27 area aggregated figures as well as details of the departmental submissions.

2.17 The SNP Government, once in power, published the Howatt review. It is not known to us what progress, if any, has been made by the civil service in improving its own internal scrutiny of the budget prior to its submission to Parliament and this is an area worth further investigation.

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<sup>6</sup> Choices for a Purpose : Review of Scottish Executive Budgets July 2006

<sup>7</sup> Budgeting in the Netherlands <http://www.oecd.org/dataoecd/24/34/39997918.pdf>

<sup>8</sup> Budgeting in Sweden <http://www.oecd.org/dataoecd/52/60/40140332.pdf>

### **3.0 EXAMPLES FROM OTHER COUNTRIES WHICH MAY ILLUSTRATE HOW BUDGET SCRUTINY CAN BEST BE ORGANIZED AND SUPPORTED**

3.1 Many of our comments below are derived from a review of various papers prepared by the Organisation for Economic Co-operation and Development (OECD). A useful reference, which the Scottish Parliament may wish to review, is the OECD Best Practices for Budget Transparency document.<sup>9</sup> We would recommend that the Scottish Parliament Finance committee discuss the budget process with the OECD before finalizing any proposals.

3.2 Our comments in this section focus on 3 areas:

- Role of Government/Parliament
- Time available for scrutiny
- Public involvement

#### **Role of Government and Parliament**

3.3 The budget process roles, responsibilities and powers of both Government and Parliament vary between countries. In some countries Parliament has a strong direct influence on the budget process while in others there is less influence. This is sometimes due to the culture and nature of politics, especially in coalition situations where debates and discussions on spending plans and priorities can occur outwith a Parliamentary setting. In such a situation the Parliamentary debate can be short with the focus on voting.

3.4 The budget process should be seen as a key process which works best when both Government and Parliament cooperate within an agreed framework.

3.5 It should be noted that while in some countries failure of a Government to get its budget approved is seen as a 'vote of confidence' issue this is not true for all countries.

#### **Time Available For Scrutiny**

3.6 We would strongly recommend that the Parliament does not design a budget system and budget timeline around the CSR timing difficulties of this last year but instead creates a sound timetable and is prepared to adapt it by exception as was the case this year.

3.7 We thought it might be helpful to provide some benchmark data in terms of the time other Parliaments allow for scrutiny of budgets. The OECD recommend that there should be at least 3 months for Parliamentary scrutiny<sup>10</sup>.

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<sup>9</sup> OECD Best Practices for Budget Transparency  
<http://www.oecd.org/dataoecd/33/13/1905258.pdf>

<sup>10</sup> OECD Best Practices For Budget Transparency page 4 point 2

3.8 **In the Netherlands** <sup>11</sup>the annual budget consists of a memorandum overview and 23 budget bills (expenditure areas). MPs have two weeks to question ministers on spend proposals. Opposition parties can put forward 'shadow proposals' but importantly these will (almost invariably) be costed by the Central Planning Bureau. Re-allocation between the 23 separate budget heads is extremely rare.

3.9 Detailed scrutiny of each of the 23 budget heads is carried out by subject committees. Although some changes may be made within the head total figure these are not normally significant. Generally any proposal will be expected to state which other programme (within the head) is to be cut or what ongoing revenue source will fund it.

3.10 **In Slovenia** <sup>12</sup> the Budget is set for two years on a rolling basis (i.e. it is an annual event). There is a very detailed chart of accounts with some 9,000 lines of budget at the lowest level of authorisation. The budget is set out in both objective (programme/service) and subjective (type of spend eg employees) terms. This is to ensure a detailed and tight control over spending and to enforce accountability. This however requires allowable virement rules to maintain flexibility. Subject committees have 10 days to suggest amendments to the budget proposals. The Finance Committee then co-ordinates and reviews the subject committee feedback or proposals and the budget. The Finance Committee has 5 days to formalise suggested amendments. The Government then tables a second budget which may take into account some or all of the proposals

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<sup>11</sup> Budgeting in the Netherlands  
<http://www.oecd.org/dataoecd/24/34/39997918.pdf>

<sup>12</sup> Budgeting in Slovenia <http://www.oecd.org/dataoecd/24/53/39997582.pdf>

## **Public Involvement**

3.11 The degree of public involvement in the budget process differs from country to country and may be heavily affected by the Government rather than Parliament itself.

3.12 **In Canada**<sup>13</sup>, efforts have been made to improve the Government's financial position, mainly through changes in process and control over Government's own departmental budget preparation process. Included however was also a 'pre-Budget consultation process' designed to remove some of the secrecy surrounding the budget preparation process. This helped to

(a) involve the public in a 'mature' debate with an awareness of the economic and financial situation ;

and

(b) involve the Opposition.

By consulting with Parliament and the public the main issues of contention can be identified by the Government and adjusted where necessary before the budget is considered in Parliament.

3.13 **In Romania**<sup>14</sup> the Government is required to consult with the Economic & Social Council (CES) which consists of Government, employers associations & trade unions. The CES acts as a useful sounding board for policies however its actual influence and power is limited.

3.14 Also of interest to the committee may be the OECD policy brief No 22<sup>15</sup>. We have not attempted to summarise this extensive policy briefing . We would draw your attention to some overseas practices, which are underway to strengthen participation.

"Phase 2 – Analysis – this stage begins once the budget has been presented in the legislature. At this point in the cycle, the budget is subject to the highest level of public scrutiny. This is the primary phase for legislative participation in the budget process – Parliaments will scrutinize the contents of the budget and depending on the political and institutional environment, seek to amend particular items, At this point, civil society organizations such as the Institute for Democracy in South Africa (IDASA) and the Institute for Economic Affairs in Kenya will conduct budget analysis. Their work seeks to demystify the inaccessible aspects of the budget for the general public and legislators and to highlight the underlying policy implications of the budget for objectives such as poverty reduction. CSOs often make this critique the subject of public debate by using the media and they may also form alliances and share information with the legislature in order to increase the effectiveness of their advocacy efforts."

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<sup>13</sup> Budgeting in Canada <http://www.oecd.org/dataoecd/52/61/40140423.pdf>

<sup>14</sup> Budgeting in Slovenia <http://www.oecd.org/dataoecd/24/53/39997582.pdf>

<sup>15</sup> Strengthening participation in public expenditure management: policy recommendations for key stakeholders

“Phase 4 – performance evaluation – final phase of the cycle involves assessing the performance of the public services that the budget funds. The critical participatory element of this phase is citizens feedback about the quality of access to and satisfaction with the services they receive from Governments. One instrument to collect this information, administered by civil society groups or independent groups hired by the Government are “report cards” – surveys that focus on poor peoples experience of public services.”

3.15 The budget is the single most important policy document of Governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is a key element of good Government. As a consequence, the OECD has developed a set of best practice in this area.

3.16 In its report <sup>16</sup>, the OECD advocates the publication of a Pre-Election Report. This would serve to illuminate the general state of Government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate. The OECD recognizes that the feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than 2 weeks prior to elections. Such a practice, if adopted in Scotland, may increase the interest in engaging with the Parliament’s budget process amongst the electorate.

3.17 The OECD report, also recommends the issue of a long term report. This should assess the long term sustainability of current Government policies. It should be released at least every 5 years or when major changes are made in substantive revenue/expenditure programmes. The report should assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long term (10-40 years).

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<sup>16</sup> OECD Budget Transparency

[http://www.oilis.oecd.org/oilis/2000doc.nsf/87fae4004d4fa67ac125685d005300b3/c125692700623b74c1256a4d005c23be/\\$FILE/JT00107731.PDF](http://www.oilis.oecd.org/oilis/2000doc.nsf/87fae4004d4fa67ac125685d005300b3/c125692700623b74c1256a4d005c23be/$FILE/JT00107731.PDF)

## **4.0 IMPROVEMENTS REQUIRED ON BOTH SIDES**

### **GOVERNMENT**

#### Post Scrutiny review

4.1 The Howat Review could not find strong evidence linking budgets/programmes to well defined outcomes and in turn SMART targets. They did find voluminous evidence of monitoring and measuring inputs, outputs and activities, some of which did not appear to be making a direct contribution to the project it purported to measure. This would suggest that Government itself is not in a position to support Parliamentary review of the effectiveness of policy implementation. The Howatt review did believe that significant improvements are possible if any future Government had greater clarity on its desired outcomes and priorities.

#### Alternative spending proposals

4.2 The Howatt review faced difficulties in assessing the implications of switching or reducing spend in any programme. They tried to give some indication of any statutory, contractual or administrative consequences that might follow from any switch in resources recommended. Subject committees would have to be able to assess the implications of switching or reducing spend if it were to develop alternative budget proposals.

#### Budget Documents

4.3 FIAG recommended that budgets should follow the internal structure of the Administration and hence align with accountable officer responsibilities. With the election of the SNP Government, a new structure for Government was implemented. The number of Government departments was cut with a series of simplifications, amalgamations and transfer of responsibilities. We would simply pose the question whether the budget documents have been altered to align to the new structure of the Scottish Government.

4.4 The SNP Government has set out a clear purpose for Government and this is supported by seven strategic objectives. In holding Government to account for its achievement of these objectives, budget documents will need to be presented in a way that enables Parliament to scrutinize the allocation of resources against these objectives.

## **SUBJECT COMMITTEES**

4.5 Helpfully, The Centre for Public Scrutiny<sup>17</sup> has identified a cycle of different types of scrutiny and review:

- Policy development
- Pre-scrutiny of a proposed policy decision
- A process to challenge and require a rethink of a decision in exceptional circumstances, for example, if it is believed that standing orders have not been complied with
- On-going monitoring and challenge of performance, implementation, financial management etc
- Post-scrutiny review of the effectiveness of the policy and implementation, leading to further policy development”

4.6 It is important that the work of the subject committees adequately covers each aspect of the different types of scrutiny. As noted in “Recreating Financial scrutiny”<sup>18</sup> financial scrutiny should not be viewed as a separate aspect of scrutiny. In select committee work, financial scrutiny is often most effective when conducted in conjunction with analysis of the policies which result in the expenditure and of the outcomes of that expenditure. Perhaps further clarity needs to be provided to the committees in terms of their scrutiny role in line with the Centre for Public Scrutiny’s cycle of scrutiny definition.

### ***On-going monitoring and challenge of performance, implementation, financial management etc-***

4.7 FIAG Budgetary procedures recommended that subject committees should consider VFM reports that concern their area. FIAG’s view was that having subject committees consider VFM reports has the advantage of encouraging them to take responsibility for investigating performance and VFM as well as policy. While any subject committee in the Parliament has the power to examine VFM issues, in practice, such work is carried out by the Audit committee. Perhaps this practice needs to be reconsidered against FIAG’s budgetary procedures.

### **Post-scrutiny review of the effectiveness of the policy and implementation, leading to further policy development”**

4.8 The Westminster select committees now have an explicit core task “to examine the implementation of legislation and major policy initiatives”. For example, the Transport, Local Government and Regions Committee reviewed how the Local Government Act of 2000 is working. The Hansard Society argues that post legislative review would increase the likelihood that defective legislation would be identified and rectified and that such scrutiny might lead to improvements to legislation in the first place, reducing the need for amending legislation. A recent example is the fall out from the Free Personal Care legislation.

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<sup>17</sup> <http://www.cfps.org.uk/>

<sup>18</sup> House of Commons Liaison Committee “Recreating Financial Scrutiny” Second Report of Session 2007-2008

4.9 We pose the question about the role of the subject committees in monitoring and reviewing the implementation of this piece of legislation. The National Audit Office scrutinizes spending on behalf of the UK Parliament. Part of its work necessarily involves reviews which may involve an element of post legislative scrutiny. The National Audit Office is now assisting more select committees and not just the Public Accounts Committee.

## 5.0 WIDER ISSUES WHICH NEED TO BE CONSIDERED

### Local Authority Spend

5.1 The Accounts Commission role is to examine how Scotlands 32 councils and 34 joint boards manage their finances. As the Accounts Commission does not report to the Scottish Parliament, significant amounts of public finance are not subject to Parliamentary scrutiny. The Education Committee in its Final draft report on 04/05 budget process highlighted<sup>19</sup> " many of the existing targets relate more directly to the £3.3 billion spent on services for education and young people delivered by local authorities rather than the £407m under the departments direct control. However, no detail is given on the £3.3bn spent within the AER". The Committee recognized the importance of protecting local autonomy but felt that this need not prevent a full and transparent picture of the resourcing, delivery and outcome of all services

### PFI Contracts

5.2 The Hansard Society Report<sup>20</sup> recommends that PFI contracts should be subject to full select committee scrutiny and commercial confidentiality should not be used to block full Parliamentary scrutiny. The purpose of financial scrutiny is "to make Government's financial decisions transparent".<sup>21</sup>

5.3 The ongoing debate associated with PFI, points to the broader question of how Parliamentary scrutiny can keep pace with changes to the way Government operates. Consider for a moment, the Government's "Taking Forward the Scottish Futures Trust" – how will the Parliament be able to undertake scrutiny of what will be a quasi private sector body if it goes ahead?

### Efficiency

5.4 Interestingly, a key area for scrutiny is efficiency reporting. Consideration needs to be given to the role of the Parliament and the committees in scrutinizing progress against the efficiency targets and in fact scrutiny of the targets themselves is required.

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<sup>19</sup> Education committee 12 May 2004 Final draft report on 2004-05 budget process

<sup>20</sup> The Fiscal Maze Parliament, Government and Public Money, The Hansard Society 2006

<sup>21</sup> House of Commons Liaison Committee "Recreating Financial Scrutiny" Second Report of Session 2007-2008