The Scottish Parliament Finance Committee Review of the Budget Process

CPPR Response

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EXECUTIVE SUMMARY

- The Finance Committee's role of holding the Scottish Government to account is essential in the absence of a strong, independent scrutiny function within the administration. Challenging budget allocations over the spending review period increases the need to monitor the Government's progress in delivering its economic strategy.

- The local government concordat increases the need to hold the Government to account given the increased role local government now has in delivering the nationally-set economic targets.

- There is a growing need for the Finance Committee to look closely at what resources it can call upon to aid its effective scrutiny of the £30 billion spent on Scotland's public services.

- External scrutiny would be enhanced if the Finance Committee were to seek changes to a small number of operational issues that currently lead to inappropriate confusion and disagreement amongst commentators.

INTRODUCTION

The CPPR is pleased to provide a response to the Scottish Parliament Finance Committee's review of the Budget process. The review is particularly timely given the change in administration and the significant slowdown in funding that will be available over the next three years for Scotland's public services. In the absence of a strong, central challenge function such as HM Treasury in Whitehall, the role of the Finance Committee is critical in holding all Scottish Government spending departments to account. It can seek the evidence necessary to affirm the Scottish Government's spending plans will deliver its strategic economic targets but also that value for money is paramount.

The CPPR is an independent commentator on the Scottish economy and Scottish public policy.[1] In addition, it aims to provide independent analysis of the Scottish Government's budget. The 2007 Budget round raised a number of issues that made such independent scrutiny difficult. Given this experience, our response to the consultation focuses on two main areas: first, why we believe there is an increasingly important role to be performed by the Finance Committee; and, secondly, why improvement in a small number of operational issues would assist effective scrutiny, either by the Finance Committee or scrutiny undertaken by others.

[1] See http://www.cppr.ac.uk/centres/cppr/analysisofthescottisheconomy/

INCREASING IMPORTANCE OF THE FINANCE COMMITTEE

Links between Budget and Scottish Government's economic strategy

1. The Scottish Government's 2007 budget aims to support the delivery of its economic strategy. As we indicated in our briefing paper on the Government's strategy[2], a greater level of supporting evidence is required to explain how the budget priorities and funding allocations are expected to deliver specific strategic aims. For example, the Scottish Enterprise budget was cut by 5% per annum in real terms with Highlands & Islands Enterprise facing an even larger real terms fall of 7.5% per annum. Scotland's Higher and Further education institutes are also set to face funding challenges with a fall in this year's allocation and increases of only 0.5% per annum in real terms over the 3 year spending review period, well below the overall Scottish average spending rate of 1.5% per annum. The Government's main strategic objective is to achieve parity in economic growth with the UK, something seldomly achieved in the last 30 years.[3] Whilst the increasing levels of funding (ie, inputs) do not necessarily lead to rising levels of economic growth (ie, outcomes), without it there is an even greater necessity for the Scottish Government to explain how it expects to deliver greater productivity to compensate for less public spending by both agencies. The Finance Committee therefore plays a critical role in seeking just such clarification.

2. A further reason for arguing the role of the Finance Committee is growing follows from the establishment of the local government concordat. This heralded a switch in responsibility for delivery from central to local authority, with the reduction and likely permanent elimination of ring-fenced funding of over £2.5 billion. The Scottish Government will hold local authorities to account through assessment of the evolving individual single outcome agreements (SOA). Whilst these SOAs make local authority accountability clear, scrutiny by the Finance Committee should also be required to ensure the Scottish Government's overall economic targets are also achieved.

Efficiency Savings

3. The 2007 Scottish Budget affirmed its commitment to the continuation of an efficiency savings programme: 2% per annum over the 3 years 2008-09 to 2010-11. The importance of delivering such savings may well be critical to maintaining service levels, especially where the funding allocated by the Scottish Government in this spending review period are lower than in previous years and/or where inflationary pressures within any individual service are greater than RPI. Given this, it is essential that the Finance Committee seeks clarity on the 2008-09 service level baselines, essential for any independent assessment of success (if we do not know the service level in 2008-09, it will not be possible to affirm services have not been reduced or quality compromised). In addition, however, we also envisage the Finance Committee seeking to undertake periodic reviews of progress. Such reviews would aim to establish where genuine savings have been achieved thus

[2] See CPPR (2007) briefing on the Scottish Government's Economic Strategy at www.cppr.ac.uk/media/media_55080_en.pdf
[3] See http://www.cppr.ac.uk/media/media_76596_en.pdf.

allowing best practice to be adopted elsewhere, whilst also identifying where services have been cut or quality compromised.

Resources for scrutiny

4. Independent scrutiny and challenge of the Scottish Budget would be greatly enhanced if the Scottish Government had an independent central challenge function inside the administration. The HM Treasury performs this function in Whitehall seeking evidence and clarification from spending departments to support individual requests for funding. Such evidence could be made available to the Finance Committee which would allow any challenge of spending plans to be more effective. It may even make it easier and more effective for others to promote alternative spending plans for Parliament to review. Without such evidence, the Finance Committee or individual subject committees will need to have access to greater resources to understand what spending options may have been possible and what areas may merit challenge, to ensure efficient and effective allocation of the £30 billion Scottish budget.

5. Time-limited, part-time advisers to the committees face significant challenges. They have to be able to assess fully all spending plans and provide meaningful advice for the Committee on the output of the whole of the Scottish Government. A larger dedicated resource working full-time may offer a greater insight into spending options and so improve the effectiveness of any independent scrutiny.

6. In addition to developing a dedicated resource, the Finance Committee may also wish to enter into formal arrangements with Audit Scotland for assistance on key elements of its work programme, eg, to undertake periodic reviews of the Scottish Government's efficiency programme.

OPERATIONAL ISSUES

Data problems

7. The restructuring of Scottish Government departments caused major problems regarding being able to compare the 2007 spending forecasts with earlier Scottish Government budgets. For example, it was not clear whether some programmes that were funded under the previous administration were simply reallocated to a new department, were maintained throughout, or funding for them ceased either altogether or at sometime through the 3 years of the spending review period. Without a clear reconciliation, programme by programme, it is not possible to be definitive about whether or where public spending has been cut, maintained or raised.

8. It was extremely difficult to verify whether the 2007-08 funding baselines for all programmes had been adjusted. Clearly, these are needed to assess where, if any, budgets have been cut, in both nominal and real terms. The reallocation of funds to local government was a considerable contributor to this uncertainty.

9. The Government's spending plans are presented at level 3 and above, but more detailed plans (ie, level 4) are also available to Ministers. The rationale given for this more detailed set of spending plans not being published appears to be because doing so will lead to an unwieldy final document. We feel this is an inadequate reason for not publishing all available data explaining how and where Scotland's £30 billion budget has been allocated. To overcome any handling problems the final hard copy of the Budget could be produced in separate volumes. Alternatively, it could remain in its current form with Level 4 data being posted on-line. It would also assist scrutiny if the data were made available in an excel (or equivalent) spreadsheet as this would make data manipulations easier and minimise the likelihood of calculation errors caused by erroneous data entries.

10. Due to a difference in the treatment for depreciation, the total Departmental Expenditure Limits (DEL) announced in the Scottish Budget differed to that included in the HM Treasury Budget statement. This caused some confusion as to the actual size of Scotland's total budget for 2008-09 to 2010-11. In future budget statements an accompanying explanation would eliminate this area of confusion.[4]

11. Previous Scottish Government Budget statements present spending plans in both nominal and real terms (ie, excluding inflation). Greater clarity on the underlying real terms trend in spending would be desirable and could be provided by publishing the Scottish Government's forecasts for all spending (levels 2-4) in both real and nominal terms.

12. Whilst there is a reconciliation between budget statements (ie, between that stated in the Autumn and Spring Budget Revisions), there is no clear narrative between these and the Spending Review Budget figures. The allocation of end year flexibility (EYF) and payments to/from the central unallocated pool (CUP) in any year inevitably mean budget totals change. Since this means actual budgets differ from the spending plans reported in the Spending Review budget document, a simple reconciliation would clarify where budgets have or have not been increased. This reconciliation could also be augmented with (a) a statement of the balances sitting in CUP and (b) a statement indicating the implications of any resultant spending delays.

CONCLUSIONS

13. The CPPR believes the Finance Committee has a growing role to play in holding the Scottish Government to account. With lower real budgets alongside growing demand for public services, ensuring budgets are efficient and effective becomes even more critical. Moreover, through its efforts it can ensure the Scottish Government is fully held to account as it seeks to deliver its economic strategy.

[4] We were able to produce such a reconciliation following detailed discussions with finance officials. See www.cppr.ac.uk/media/media_54616_en.pd.