



The Scottish Parliament  
Pàrlamaid na h-Alba

**Finance Committee**

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Dear Derek

The Finance Committee recently took evidence from your officials on the Financial Memorandum for the Community Empowerment (Scotland) Bill.

In taking evidence, the Committee questioned why the FM does not provide specific cost estimates for many parts of the Bill. In your letter of 3 October you highlight the difficulties faced in estimating the financial impacts of the Bill and provided some additional information such as the possible costs per application that may be anticipated for some of the processes introduced in the Bill. In both the FM and your letter the difficulties in providing costs are linked to the demand driven nature of some of those processes.

One of the matters that was raised with officials in this regard was whether the FM meets the terms of Standing Orders Rule 9.3.2 which requires that—

“A Bill shall on introduction be accompanied by a Financial Memorandum which shall set out the best estimates of the administrative, compliance and other costs to which the provisions of the Bill would give rise, best estimates of the timescales over which such costs would be expected to arise, and an indication of the margins of uncertainty in such estimates.”

In addition to Standing Orders, the Committee is also aware of the terms of the Scottish Government’s guidance on Financial Memoranda (SG 2009/1) which sets out a number of matters to which regard should be given in the preparation of FMs. This states that “Estimates should be comprehensive and include sufficient details

on the basis of figures to enable the Parliament to come to a view on their robustness.”

The Committee appreciates that it is not necessarily a straightforward exercise to determine costs and that a great many factors have to be considered. However, regardless of the potential difficulties, the Committee does expect FMs to contain sufficient detail to enable us to establish the robustness of estimates and the degrees of uncertainty around these estimates. This is again reflected in the SG guidance which states that—

“Estimating costs (and benefits) can be difficult but rarely if ever impossible. Advice should be sought from ASDs on establishing an appropriate evidence base and baselines, estimating techniques and discounting (where appropriate), the presentation of figures and the extent to which optimism bias adjustments need to be applied to costs...”

Costings should not be omitted because final decisions have still to be made. Where this is the case a range of costs should be provided reflecting the possible options. Where a Bill proposes powers dependent on secondary legislation (or further primary legislation), it may not be possible to be precise. In these cases, the Memorandum should say so. However, this should be supported by an outline of the SG’s current intentions, the financial implications of these intentions, and the effect of varying the major assumptions.”

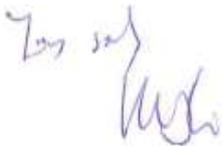
The Committee asks you to explain how the FM for the Community Empowerment (Scotland) Bill has met these requirements.

Similar issues have been identified in relation to other FMs this session, and a copy of this letter therefore goes to the Cabinet Secretary for Finance, Employment and Sustainable Growth.

I would be grateful if you would reply close on Wednesday 22 October.

I look forward to your response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Ken Gibson', is written over a faint, light blue circular stamp.

**Kenneth Gibson MSP**  
**Convener**