



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 22 March 2017**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**Wednesday 22 March 2017**

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**FINANCE AND CONSTITUTION COMMITTEE**

**10<sup>th</sup> Meeting 2017, Session 5**

**CONVENER**

\*Bruce Crawford (Stirling) (SNP)

**DEPUTY CONVENER**

\*Adam Tomkins (Glasgow) (Con)

**COMMITTEE MEMBERS**

\*Neil Bibby (West Scotland) (Lab)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Ash Denham (Edinburgh Eastern) (SNP)

\*Murdo Fraser (Mid Scotland and Fife) (Con)

\*Patrick Harvie (Glasgow) (Green)

\*James Kelly (Glasgow) (Lab)

\*Liam Kerr (North East Scotland) (Con)

\*Ivan McKee (Glasgow Provan) (SNP)

\*Maree Todd (Highlands and Islands) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Caroline Gardner (Auditor General for Scotland)

Professor James Mitchell (University of Edinburgh)

Don Peebles (Chartered Institute of Public Finance and Accountancy Scotland)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Finance and Constitution Committee

*Wednesday 22 March 2017*

*[The Convener opened the meeting at 09:30]*

### Decision on Taking Business in Private

**The Convener (Bruce Crawford):** Good morning and welcome to the 10th meeting in 2017 of the Finance and Constitution Committee. As usual, I ask members to put their mobile phones, tablets and so on into a mode that will not interfere with proceedings.

Agenda item 1 is a decision on taking business in private. Are members agreed to take item 3, which is consideration of a draft stage 1 report on the Air Departure Tax (Scotland) Bill, and any future consideration of the report in private?

**Members** *indicated agreement.*

## Budget Process Review Group (Interim Report)

09:30

**The Convener:** Item 2 is to take evidence on the budget process review group's interim report from three external members of the group. I welcome Caroline Gardner, who is the Auditor General for Scotland; Professor James Mitchell, who is director of the academy of government at the University of Edinburgh; and Don Peebles, who is the head of the Chartered Institute of Public Finance and Accountancy Scotland. I warmly welcome our witnesses. Along with the rest of the members of the group, you have provided us with a substantive and detailed interim report. It has asked the right questions and it has certainly helped to initiate a debate, which begins today in the Scottish Parliament, on what a new budgetary process could look like. I am grateful for that input and for the work that has already been done. Does Caroline Gardner want to make an opening statement?

**Caroline Gardner (Auditor General for Scotland):** On behalf of the members of the budget process review group, I thank the committee for inviting us to provide evidence on the group's interim report.

As the committee knows very well, the Scotland Act 2012 and the Scotland Act 2016 devolve substantial new financial and social security powers to the Scottish Parliament. That means that the Scottish budget is becoming increasingly complex and subject to much greater uncertainty and volatility than in the past, when the block grant from the United Kingdom Government was relatively fixed. The Scottish Government and the Scottish Parliament will have more choice over tax and spending and more decisions to make about how and when to use the new powers within the agreed fiscal framework. The Scottish Parliament's budget process needs to reflect those fundamental changes in the Scottish public finances.

The budget process review group was established to review the budget process and to make proposals for change. We have approached this in two stages. The interim report highlights what we see as some of the key issues, grouped around five key themes, and includes questions for consultation. Following that, we aim to publish a final report, with recommendations, before the end of June. We have adopted a principles-based approach to our work, aiming for a world-class financial scrutiny process that reflects the Scottish context.

Membership of the group includes Scottish Parliament and Scottish Government officials, as well as eight external members, who include me, James Mitchell and Don Peebles. A number of public finance experts have presented their views. The interim report reflects the breadth of contributions from members and others. It sets out the issues that need to be considered but does not, at this stage, present the agreed findings of the group overall. We are keen to gather a wide range of views from you as parliamentarians, from civic Scotland and from the Scottish public before agreeing our recommendations later this spring. The consultation that we have launched is an important opportunity for people to have their say.

Ultimately, though, we are very clear that it will be for the Scottish Parliament and the Scottish Government to agree a revised process. There are choices to be made on what it will look like, and when and how it will be implemented. That will depend to a great extent on what Professor Wehner, whose backing research we have published alongside our report, calls the agreed vision for parliamentary scrutiny. It will also require us to decide how best to balance aspirations for what the process might look like with the practicalities, which will need a careful blend of ambition and realism.

Convener, we will do our best to answer questions from the committee.

**The Convener:** Thank you very much.

**Adam Tomkins (Glasgow) (Con):** I thank the witnesses for coming to speak with us this morning and for their work with the review group. One option that has been canvassed in various circles and in various contexts is that the Parliament should have an annual finance bill, which I understand is what the House of Commons has. What is the difference between what we currently do and having an annual finance bill? What would be the strengths and limitations of moving to a finance bill model?

**Caroline Gardner:** That is a good question to start with. Our starting point would be that a move to a finance bill would need to be, as I touched on in my opening statement, an integral part of a wider vision about the way in which the overall budget process and the scrutiny of the budget would work. If there was a desire to move towards greater amendment powers for the Parliament, a finance bill would give you the picture of revenue raising and spend in the round and allow scrutiny and consideration of whether committees should propose amendments that would move through to the bill as passed.

At the moment, proposals are made for spending in an overall financial envelope. Although there is a provision for amendment at

stage 1, it has rarely been used. Instead, behind-the-scenes negotiations have led to a Government amendment of the budget bill. There could be real benefits if the Parliament and Government decided that amendment powers were appropriate in the new process. There would be a benefit in letting you have the big picture of revenue raising, spend and all of the aggregates that come into the budget—for example, the borrowing powers that come through the Scotland reserve and the ability to smooth expenditure taking one year with another.

**Adam Tomkins:** So a finance bill would change the balance of power between the Government and Parliament in the Parliament's favour.

**Caroline Gardner:** A finance bill on its own would not do that. However, a finance bill together with amendment powers, which are one of the other issues that we suggest need to be considered at this stage of the review of the budget process, would do so.

**Adam Tomkins:** I see. What would be the cost of that? In particular, would it have any effect on the amount of time that the Parliament had to consider the Government's budget proposals?

**Professor James Mitchell (University of Edinburgh):** Even if you were to move to that model, the budget process would have many other aspects and it would be a mistake to focus on only one element in the year. Therefore, if time is a problem, you would need to build into the process other scrutiny over the year. The great danger would be to see the process as a single event, or a process that is concentrated in a particular period of time, so we would need to ensure that, as Caroline Gardner says, there is a long-term process over the whole year. We are keen to hear members' views on that and reluctant to give ours at this stage. In other words, if such a system had any deficiencies, you would need to build in arrangements to address some of those deficiencies at other points in the year. That is why we have tried to consider the matter holistically rather than focusing on one part of it.

**Adam Tomkins:** Indeed. I understand that and I understand the force of the argument. I am just trying to understand in a bit more detail the exact differences—positive and negative—from a parliamentary point of view between what we currently do and what we would be able to do if we had an annual finance bill.

I will give an example of something that has recently been said is a consequence of not having a finance bill. The Air Departure Tax (Scotland) Bill does not contain all the detail of the scope of the tax liability. It does not have anything about bands and rates, which is what we would expect, but it does not even have everything about the scope of

the tax liability, such as, in particular, exemptions. That is different from the air passenger duty legislation at UK level. The Cabinet Secretary for Finance and Constitution recently told us that that is because there is no finance bill.

What are your reflections on that? I am not asking about the specifics of air departure tax. Is it a general or systemic problem of the Parliament not having a finance bill that we have to pass tax legislation that leaves the scope and liability of the tax to statutory instruments?

**Don Peebles (Chartered Institute of Public Finance and Accountancy Scotland):** We have to be aware that the current process and the design of the budget bill are for expenditure, as Caroline Gardner outlined. We are now in different circumstances and those circumstances will change in future, so such questions are entirely valid. It is unlikely that the process that we have gone through so far will give us the answer. We will seek answers to the question of the interrelationship with other elements of taxation and how the formal expression of all that can be presented to parliamentarians so that they have as wide and as true a view as possible.

If we look at the current situation, we see that there is an interrelationship between the bill and the Scottish rate resolution, and stage 3 cannot begin until the rate resolution has been formalised. That is the type of thing that we have to assess in deciding what we need to do and whether it is right to express all that in a single finance bill.

**Patrick Harvie (Glasgow) (Green):** We now have a range of tax instruments. You mentioned the rate resolution, which has the highest profile in public debate, partly because it is new and partly because, as you said, the budget cannot proceed to stage 3 until the rate resolution has been passed. Traditionally, we have had a lower level of scrutiny for other tax instruments. Non-domestic rates, for example, are set by negative instruments, which are rarely debated in parliamentary committees or in the chamber. With council tax, although it is technically set by councils, there is a degree of central policy making through rate capping, just as there was previously through the council tax freeze. As well as ADT, we now have quite a wide range of tax instruments, and a different level of parliamentary process and scrutiny for each one. Is the finance bill model that you are suggesting intended to square that off and regularise things, so that we have a similar standard of parliamentary scrutiny for those different instruments, or would that issue not be resolved by what you are proposing?

**Caroline Gardner:** I should probably start by saying that we are not necessarily proposing anything at this point; we are seeking people's views.

**Patrick Harvie:** I am sorry—would it not be resolved by what we are discussing?

**Caroline Gardner:** The group is clear that we are moving from a position where, for the first 16 years of its life, Parliament was deciding, in large part, how to spend a block grant that came from Westminster. We are now moving into a very different world, where half of what is spent in Scotland will be raised in Scotland. There are questions that have already come through our discussion this morning about how the revenue-raising parts of that picture come together, and you have highlighted another important perspective on that, Mr Harvie.

As Auditor General, I have previously reported on the fact that nowhere do we have a single picture of Scotland's public finances that pulls in council tax income, non-domestic rates income, the borrowing powers that came in under the Scotland Act 2012, and some other aspects. Throughout the budget cycle, we need to have that picture at the high level with the aggregates that are there, as a basis for making decisions about both the priorities for spending and the various revenue-raising measures.

A finance bill would be one way of pulling all that together. There would be timing issues that we would need to work through, in terms of both the Government's ability to prepare the information and Parliament's ability to scrutinise it, and there is also the question of amendment powers, but we would be looking to raise the importance of the big picture and how it might work in practice in what will inevitably be conditions of greater uncertainty and constrained time.

**The Convener:** I have a supplementary question. On the face of it, from a perspective of both efficiency and scrutiny, it would seem reasonable to have a finance bill that contained all the various elements that we currently deal with through secondary legislation. That would improve scrutiny for Parliament and it would improve efficiency in the Government as well. Different matters would not have to be dealt with at different times of the year, although such a change might reduce Government flexibility a bit. If we eventually chose such a construct, how would it sit alongside another good idea that was highlighted in the report of having a medium-term examination of the country's finances as part of that holistic picture? Can those things sit comfortably alongside each other?

**Professor Mitchell:** That is a good and important question, and we are grappling with how we can fit the pieces together effectively. We want to have all those things and, when it comes to budgetary politics, there are often trade-offs. In this case, the way to balance that is to ensure that the different processes occur separately but are

linked, and we need to get that linkage right so that it feeds into the process. To return to the example that Patrick Harvie raised, there are so many aspects of the budgetary process that you want to look at each year, and you simply cannot because you do not have the time to do it all at once. In tandem with the bigger picture, you need some things to run alongside that and to feed into the process. That is one challenge, and another big challenge lies in how the different committees operate and the relationship between this committee and other committees when they work on those areas.

09:45

It has been challenging enough up to now, and it will be much more so in the future. We have got to get it right, but we do not want to make firm proposals at this stage. The danger is that, if we say X, Y and Z now, we might come to regret it. That is why we are keen to get as much feedback from you and others.

**The Convener:** Adam Tomkins quite rightly drew to my attention the fact that we have had a change to the UK budgetary cycle. What consideration has the group given to the UK budget moving to autumn and how that will fit with any medium-term examination of the Scottish finances, alongside the economy and any finance bill, no doubt at the same time. Is a picture beginning to emerge of how they might sit alongside one another?

**Don Peebles:** Medium-term financial planning will probably be informed by the UK budget, irrespective of the timing. On what has just been discussed, I would not say that a choice has been made between a medium-term financial plan and a finance bill; I would say that the finance bill would be the parliamentary expression of all the information that has been brought before parliamentarians, of which a medium-term financial plan would be one component.

The UK budget will inform the financial planning of the Scottish Government. In essence, that has taken place in March until now. Further back, the UK budget took place two times in a year: expenditure was announced in the autumn and what we knew as the budget, in March, was about income. It is relatively recently—probably within the past 20 years—that both have been brought together to be the consolidated budget that we recognise now. In announcing the budget in autumn, the UK Government is reverting back to a position that was previously quite common in expenditure terms.

There will be an interrelationship with the Scottish Government. The reality for parliamentarians is that it could truncate the

timescale that you have to examine and scrutinise the budget. It is possible, depending on the timing, that there may be a need for revision to the Scottish Government budget as a result, depending on when the timing is.

**The Convener:** I hope that has not gone too much into the territory that Ash Denham wanted to ask about. If so, I apologise.

**Ash Denham (Edinburgh Eastern) (SNP):** That was what I was going to cover. Either we have the Scottish draft budget before we know what is going to be in the UK budget—which means that it could have plenty of scrutiny but might be subject to quite substantial revisions—or we have it afterwards, when we know what the content is going to be but the period of time to scrutinise it is condensed. What are your views on that?

**Caroline Gardner:** That dilemma—which is real—is behind the group's proposed suggestion that we consider scrutiny across the whole budget cycle, not just in the period of eight weeks or two weeks or whatever it ends up being, after the UK budget has been announced and before the budget bill or finance bill here has to be approved. Instead, scrutiny would be over a longer period and would be supported by better information—fuller and more usable than we have in some areas—so that the discussion would focus on the changes during the period after the announcement of the UK budget and the introduction of the Scottish budget in whatever form that takes. That means pulling back to look at the whole system, not just that bit. Our thinking so far is that this approach can compensate for the change, if it is properly supported by good information and support for the Parliament's committees to do their work.

**Professor Mitchell:** That is one of the big changes that will have to be addressed, with respect to other aspects, too, such as reconciliations. There will be a lot more uncertainty and change. That has hugely influenced how we have been working; we have had to acknowledge that that will be the new environment. The dilemma that you have raised is a very real one and means, as Caroline Gardner said, that we have to present this in a more holistic way than perhaps we have. This approach may not be perfect, but it is probably the only way forward. One thing that we have grappled with is the uncertainty and change that will be introduced to a greater extent than we have had in the past.

**Ash Denham:** I noted with interest that you spoke about the idea of linking spending to outcomes that the Government is trying to achieve, rather than grouping it into portfolios. Would you like to say a bit more about that?



**Caroline Gardner:** I will kick off; I am sure that Jim Mitchell will have strong views, too. The group has talked about that issue a lot. It recognises that it must be a good thing for any Government to think about the outcomes that it wants to achieve in allocating its budget. That is the main way that it has of changing society in Scotland. The national performance framework has been seen as a trailblazer in setting out those outcomes, which are now being embedded in legislation.

Our debate has focused more on how we link the budget to the outcomes. Professor Wehner's report was very helpful to us in demonstrating that drawing a direct line between what is spent and the outcomes that are achieved is tricky and can dilute rather than strengthen accountability. That is why our report talks more about outputs—outputs that are clearly designed to be staging points towards the outcomes that are sought. We want there to be more clarity on how to link spending programmes with the desired outputs.

For example, one of the outcomes in the national performance framework is about living our lives

“safe from crime, disorder and danger.”

At the moment, it is quite difficult to see how all the spending that is undertaken—which happens primarily in the justice portfolio, but also more widely—is linked to that, but the Government has done some good work on how to take a programme approach to reducing reoffending. We think that there is room to take the outcomes, work back to the outputs that are sought and link the spending to them in a much clearer way. That seems to us to be a very productive way of progressing.

**Professor Mitchell:** I have spoken to the committee about outcomes in the past. This is a hugely important point: not taking outcomes into account will be a major failing.

I do not have much to add to Caroline Gardner's comments. The work that Audit Scotland has done and continues to do in that respect has been hugely important and should inform the work of the Parliament. Linking outcomes to spending is an extremely tricky area. We know that there are issues such as how long it takes to have an impact; we have discussed all sorts of issues in the past. We are keen to highlight the linking of spending with outcomes—that is why we have a section on it in our report. We want to bring that to people's attention and ensure that they do not lose sight of it.

**Don Peebles:** I have something to add that the committee might be interested to know. As Caroline Gardner rightly said, we can trace the Parliament's and the Government's focus on outcomes back about 10 years. Scotland is seen

as a bit of a trailblazer in that regard. Last year, in its programme for government, the Northern Ireland Executive introduced an outcomes-based approach that was modelled on Scotland's. Three years ago, when the Welsh Assembly considered its budget process, it looked at Scotland's approach to budgeting and our approach to outcomes, so we are probably in a good place, notwithstanding the fact that there is a lot of work still to do on our approach to outcomes.

**The Convener:** We have got on to outcomes a bit more quickly than I expected.

**Ash Denham:** Sorry.

**The Convener:** Do not worry about it—I did exactly the same.

I know that Patrick Harvie wants to come in, but I want to finish the questions on outcomes first. Ivan McKee and Murdo Fraser both have questions on that.

**Ivan McKee (Glasgow Provan) (SNP):** I thank the panel for coming along.

I want to drill into the subject in a bit more depth. You looked at what is done in four other countries, including New Zealand. We are keen to learn more about that. I totally understand what you are talking about. If I have read this right, first comes the strategy, then the outcomes, which are pretty high level. On the other side, there is the focus on inputs. As politicians, we are terrible in that respect; we talk about inputs all the time. We know that we need to change. The discussion about inputs is clearly all portfolio driven. The question is how we join things up. I am glad that you talk about what you call outputs. To my mind, outputs form a lower level in the hierarchy of objectives, which the portfolio departments can plug into.

I want to probe what you learned from the other countries that you looked at. What did you learn about how New Zealand approaches the issue? In one way, it is good that, to an extent, Scotland is at the forefront of this stuff, but it is bad in the sense that we might not have anyone to learn from.

Clearly, there are differences between the private and public sectors—I am not saying that the private sector is good at that outcomes-based work, because an awful lot of large private sector companies are rubbish at it. Have you looked at any examples of how private sector companies organise strategic and intermediate objectives and then line up departmental spend and track performance against that?

**Caroline Gardner:** What we have done so far is contained in the report that Professor Wehner prepared for us, which looked at the overall budget processes in four countries. On outcomes and outputs, the most relevant approaches were those

used in New Zealand and Australia. New Zealand has an approach that focuses on outputs that are linked to outcomes. There seems to be a lot of mileage in that for further exploration in the Scottish context. It appears that Australia is much more wedded to going straight to outcomes, and the concern is that that dilutes accountability and makes it hard to see which expenditure is effective and which is not.

We can take away your suggestion that we should be looking at business and other sectors to see whether we can learn from them. I guess the challenge is that most businesses—for good reason—are not as transparent about how they do that planning as governments have been, but we will certainly have a look at that.

**Ivan McKee:** Is there value in the committee looking at the available measures, including the national performance framework, to see what is there and whether they are the most effective ones to deliver what we are trying to achieve?

**Professor Mitchell:** Without a doubt. The national performance framework always ought to be scrutinised. I know that that is an on-going process, and it is always useful to do that. There is always room for improvement. As a broad principle, the NPF is the right way forward, but we must constantly review it, whether as part of this or any other process.

I emphasise the New Zealand example. We were aware of that example before we began the work and we had an extremely useful presentation during our deliberations. You are right to say that we may be ahead of the game in many respects, but we can learn much from many places, and the extent to which New Zealand has emerged strongly in that respect is interesting.

**Don Peebles:** I emphasise that I see scrutiny of the national performance framework as an integral part of your deliberations. It is a part of the process, rather than apart from it, and we need to consider how it can be consolidated within the process as we go forward with the work on outcomes.

It is right that we are learning from other countries—the work has been very revealing. New Zealand has always been at the forefront of work in this area. One issue that the group picked up from the assessment of the other countries is that—perhaps paradoxically—the New Zealand Parliament takes a minimal approach to scrutiny. It has a minor role in the process. It gets the budget one month before financial year-end and it is two months into the financial year before the budget is approved. Although there may be many positives, there are other things to learn about the parliamentary approach.

**Ivan McKee:** Are you saying that we should look at that to see whether it works better, or are you saying that that approach to parliamentary scrutiny is a negative?

**Don Peebles:** It seems to me that that is a negative, rather than a positive.

**Ivan McKee:** Okay. I was not clear about what you meant.

How should we build this into our on-going work? Clearly, there have been conversations, if you like, between us and other committees. We have asked them to do stuff, they have gone and done stuff and stuff has come back—that is the level that we are at. There is no regular process. We do not set out what questions the committees should ask, what measures they should check, what performance measures they should track or what outcomes or outputs they should expect. To my mind, it looks as though there is an awful lot on which we are barely scratching the surface. Is that how you see it?

**Professor Mitchell:** Yes. We are nervous and reluctant to tell committees how they ought to operate and so on and so forth. The other committees will have their own agendas and business and they are all extremely busy, but it would be good if it was at all possible to move towards a more coherent and co-ordinated process. However, there would be a downside to that: other committees would lose some of their autonomy.

As we move forward into this new environment, it becomes ever more important to have—I am trying to word this as carefully as I can—greater co-ordination across committees.

**Ivan McKee:** Even committees having guidelines on how to approach the work might be helpful.

**Caroline Gardner:** Moving towards a focus on the whole budget cycle rather than a focus on the budget season would help with that. Committees would then have choices about what point in the year they carry out their scrutiny and where they want to focus. If you take the Health and Sport committee as an example, where in the year and what particular issues it wants to look into could link into the information that the Government provides and the audit work that is available to it. The scrutiny can be done much better by looking over a longer period rather than just looking at the issues over a few weeks in the autumn.

10:00

**Ivan McKee:** I suppose that that is getting away from the conversation about what we are spending the money on and towards the outcomes.

**Murdo Fraser (Mid Scotland and Fife) (Con):**

We have covered a lot of the ground that I was going to talk about. However, I want to ask about paragraph 178 of the report, which says:

“The AGS suggests that enhanced financial reporting could include ‘performance reporting, so that it is clearer what spending is aiming to achieve and how this contributes to the Government’s overall purpose and specific outputs and outcomes.’”

I am trying to understand how realistic it is in practical terms to expect the Government, when it publishes its draft budget, to specify the level of outcomes or, more accurately, outputs that it would expect to get from that. Ivan McKee made a very fair point. In political debates, we are obsessed with inputs. We will endlessly debate the numbers of teachers, police officers, nurses and doctors that we have, but we concentrate much less on actual outcomes. Are there examples from elsewhere in the world of Governments publishing budgets and attaching specific outputs to budget spends at the same time?

**Caroline Gardner:** Yes, there are examples of that. It is not just about the budget document. We have talked about the national performance framework, which now takes quite a long-term view of what the priorities are for Government. The architecture is now embedded in legislation so, although future Governments might have different priorities, the approach is there until it is positively changed.

We are looking for something that, across the whole budget cycle, is clear about the way that the Government intends to allocate its money against those priorities—that is the most important way that the Government has of making things happen. At budget time, there is probably particular importance in focusing on changes in that plan, either increasing the amount that is spent in a particular area or reducing it to invest somewhere else, but there is room alongside the annual financial statements for performance reporting on what has been achieved.

I go back to Ivan McKee’s question. As committees scrutinise their particular areas of expertise and interest, it is about linking not just what the policy is and what performance looks like, but how much is spent and how that has changed over time. It is about linking the finances and the performance in respect of inputs, outputs and outcomes over a longer period, right across the budget cycle. That would need a more structured approach to the way that all the committees do their work, and, to make it possible, more joined-up information from the Government and other sources, such as audit reports.

**Murdo Fraser:** To give an example, one of the Government’s stated aims is to eliminate the attainment gap in education. Would it be

reasonable to expect in different budget lines—not just education, but local government allocations, for example—indications of how those funding allocations might impact on that stated objective?

**Caroline Gardner:** Absolutely. In response to Ms Denham’s question, I talked about linking the budget to programmes of activity that are linked to outputs and outcomes. That is a much clearer way of letting the Parliament and anybody else with an interest in the matter see how the Government intends to improve outcomes, be clear about the way that money is moving over time to do that, and be able to look back and ask how things are going, whether something is working, whether we should invest in something else, or whether we should reduce the amount that we spend on it.

**Professor Mitchell:** I stress that you have touched on something that is hugely difficult and we all appreciate that. What is required of the Government for transparency is a very clear statement of what effect it expects certain spending to have, so that, to use academic terms, there is a theory of change alongside the evidence. If we focus only on numbers in evidence, we can run into real difficulties. We have to link the two. That will always be open to challenge, questioning and scrutiny, and that is where the Parliament and its committees come in. However, one would expect the Government to explain the thinking behind its spending and to have that challenged. That is the healthy way forward, and that is what good scrutiny should be about.

I will be blunt about it. We are bound to find situations in which decisions are made that, frankly, may be made not for reasons of improving outcomes but because they get a good headline or whatever else. That goes back to the point that several members have made about input measures, and it is the role of the Parliament and its committees to question and challenge those decisions. It is a political process that is open to challenge, and that is the role of the Parliament.

**The Convener:** We have moved into performance areas generally, on which Willie Coffey has a question. I will let him ask his question first and will come back to Patrick Harvie’s supplementary question before we move on to James Kelly’s and Maree Todd’s area of questioning.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Is the balance of scrutiny weighted too much towards the front and middle of the process? I see some examples in your report of even the Finance Committee—our predecessor committee—and the Education and Culture Committee not being able to see a linkage between spending and outcomes. In any system in which you are trying to assess performance and,

hopefully, improve something, you need to close that loop and make sure that some future planning process can be carried out on the basis of an examination of a piece of work that has been done. That is a recurring theme that I remember from my time on the Public Audit Committee, and it is worrying that we are still looking at it.

It is really important that we think about where the balance of scrutiny should lie. I sometimes feel that the committee has let go of the process once the budget has been agreed, and we never see the figures again unless we look at the performance framework. Are you telling us that, in the balance of scrutiny, there should be a shift towards the end of the process, the outcomes and the performance, so that we get it right the next time round?

**Don Peebles:** At the moment, just about all the activity in the budget process is focused on the period from its publication to the final approval of the bill. Thereafter, there can be elements of scrutiny in the subject committees but there is no golden thread of scrutiny all the way through from the budget proposal to performance and the consideration of that performance and what corrective action should be taken. That is why one of the areas that we are interested in looking at internationally is the extent to which scrutiny is undertaken throughout the full year rather than just in a truncated period. That approach seems to have some merit.

At the moment, we are asking what all-year-round scrutiny would look like, whether it is preferable and whether it would be beneficial. As James Mitchell suggested, we would have to consider the extent to which there is capacity for that, and there would be trade-offs associated with that. Some behavioural change to accommodate that would be necessary among the committees and the stakeholders, which now include the Scottish Fiscal Commission as well as the Government.

**Willie Coffey:** Is there also an issue about consistency between different departments that behave and perform in different ways? I am looking at your comments in paragraph 186 of the report. When looking at performance in terms of the framework, departments sometimes find it difficult to assess themselves against performance targets, outcomes or whatever we want to call them. Do we need a more consistent theme across the board, to give us and other committees a chance to undertake some quality scrutiny?

**Don Peebles:** I suppose that that reflects a process that has been developed incrementally. The stage 3 budget process is well known, but stage 1 has gone through several iterations. When the process was designed, back in 1999, that was some eight years in advance of the national

performance framework, and behaviour has been modified in some way to accommodate that.

At this stage, we are able to draw a line, reflect on the past 18 years or so and say, "This is where we are and this is what we have. Is there a better way for all this to be joined up and linked together?" Notwithstanding the fact that we can undertake a different form of scrutiny, we have identified where there may be different options for elected politicians to consider different forms of information on a medium-term basis as well as within the budget at the moment. It is probably a quantum leap from budget to national performance framework or vice versa.

**Caroline Gardner:** There are a couple of other dimensions to consistency in addition to those that Don Peebles indicated.

First, I think that we can see in the budget that some parts of the Scottish Government are more used than others are to thinking in terms of programmes and outputs and how spend follows that. That point is reflected in the committee's comments.

Secondly, it can be quite hard to compare what was actually spent with what was in the budget, using readily available figures. We will often see the budget being compared to the budget of previous years, even where outturn was markedly different; we have seen that around student financing. Unless we know what was actually spent, it is hard to make sense of what is being forecast for the future.

A third dimension that we touch on in our interim report is the importance of separating out technical information from political presentation. It is important that the technical information is understood, that it is clear what is included and that people can agree on that, regardless of the political interpretation that every party will put on it thereafter from its own perspective. I think that there is room for more consistency in those dimensions, too.

**The Convener:** We might have gone too far away from what you wanted to ask a supplementary question about, but you can come in now, Patrick.

**Patrick Harvie:** I wanted to pick up on an earlier comment about timing and on something from the interim report. We have talked about the timing of the UK budget in autumn and what impact that has. However, I am still not aware of the UK Government giving any clarity on what "autumn" means. There is a big difference between presenting a budget in September, before the party conference season, which gives additional time for the Scottish Parliament to scrutinise and discuss a draft budget and then consider a budget bill, and presenting a budget in November—even

late November, which apparently still qualifies as autumn in some people's eyes. Are you aware of any clarity forming about what the UK Government means when it refers to an autumn budget?

**Don Peebles:** I have seen nothing that would provide the clarity that you seek. The most recent example that I can think of is the autumn statement, which came in November, as you indicated. The only fixed date—I use the word “fixed” advisedly—in the whole process is 20 September, which is the publication date for the Scottish draft budget that is in the written agreement. I have no prior knowledge of when the UK Government expects to publish its budget, but I would be surprised if it were in advance of 20 September. If you pressed me to guess, I would say that the UK Government's publication date would be as late as possible and probably into November. However, I am speculating on a personal basis rather than as a member of the budget process review group.

**Patrick Harvie:** It seems to me that that means that, if we want any substantive parliamentary scrutiny, it has to be on a draft budget that is published before the UK budget.

**Caroline Gardner:** I do not think that the budget process review group has reached that position yet, but we have done some detailed work on scary timelines for how all this works and what it means for Revenue Scotland and HM Revenue and Customs in terms of implementing tax rates and so on. We are therefore considering the matter carefully.

The other point is that it is now inevitable that there will be greater uncertainty in the budget process than there has ever been before—that is just a fact of life. Forecasts are never right; they will change and things will come in from left field more than ever in the current global political context. The process needs to be resilient enough to cope with that while still having direction and clarity about what the Government wants to achieve and giving Parliament a chance to scrutinise it. How we make that work is what we are grappling with.

**Patrick Harvie:** Yes. It certainly affects the wider public sector and not just the devolved Administrations.

**The Convener:** I seek a wee bit of clarity on that, too. My understanding is that the block grant adjustment will not be published until after the UK autumn budget. Obviously, the block grant adjustment mechanism can have a significant impact on the spending power of any Scottish Government and Parliament. The question is how we can have solid numbers before knowing what the UK budget position is and what the block grant

adjustment is. It is a bit like putting a finger in the air to see which way the wind is blowing.

**Professor Mitchell:** I would not quite put it in that way—that is maybe an extreme way of putting it, although it is certainly difficult.

**The Convener:** I am a politician and you are an academic, so I would not expect you to put it in that way.

**Professor Mitchell:** We would need to identify the uncertainties and risk. We would need to measure the risk and work out the extent to which the block grant adjustment is likely to change. That has to be built into the process. The block grant adjustment will be very important. Although we will not know the precise adjustment, we would always strive to do to get some sense of it and build that into the process. That will have to be part of the whole process of scrutiny as well. Are assumptions fair and valid? Have we assessed the risk adequately? Again, that comes back to the point that we have been stressing, which is that the new system is now replete with uncertainty to an extent that we have never had before.

10:15

**The Convener:** Patrick, do you have another question on timing issues?

**Patrick Harvie:** My question relates to the discussion of alternative tax and spending proposals from paragraph 54 onwards.

**The Convener:** Is that about timing, though? If it is not, I am doing a disservice to other members.

**Patrick Harvie:** I will be happy to come back in later.

**The Convener:** James Kelly wants to discuss issues to do with multiyear budgeting.

**James Kelly (Glasgow) (Lab):** Yes. Some of this has already been covered but, looking at the discussion so far, I suppose that what we are trying to achieve is a better budget process by having more good-quality information, which ensures that we make better decisions on how the money is allocated to individual budget lines. We have spoken about multiyear budgets and, separate from that, financial planning. One of the challenges to the Parliament getting more involved in both of those is the resource that is involved in committees. What are the fixed and variable areas of the budget that can be stripped down and separated for the parliamentary committees to look at, in terms of both financial planning and multiyear budgets?

**Professor Mitchell:** Carry on, Ms Gardner—I am still formulating my answer in my head.

**Caroline Gardner:** As you were talking, Mr Kelly, I was thinking that I am not sure that there will be many things that will be fixed in future. In a sense, there have not been in the past. The block grant has always depended on decisions that have been made by the UK Government, and we have seen both changes year on year and in-year consequentials coming through from decisions that have been taken in Westminster. What we are doing now is taking that and multiplying it several times, with different revenue streams in Scotland, block grant adjustments for the different taxes and new borrowing and reserve powers to smooth things year on year, so all of that is moving.

One of the things that we are toying with turning over in the group is the importance of this committee, in particular, having the chance to scrutinise the Government's long-term financial planning and its thinking about financial priorities, about the fiscal context in which it is working, about the fiscal and economic forecasts and about the high-level choices about investment in particular areas and disinvestment in others; and subject committees looking at the programmes, organisations and budgets associated with their area of interest alongside the priorities but also the performance and the activity that is going on. There is uncertainty in all of it, but the process that I think is forming in the group's thinking is about a much deeper and broader understanding of how that works. The broad level of understanding would be for this committee, and the depth would come through the subject committees. Jim Mitchell might want to come in again here.

**Professor Mitchell:** Mr Kelly, you threw me because I thought that your question was heading in one direction and then it came to the one that you asked. May I address the question that I thought was coming, which was certainly implicit in the early part of your remarks? I thought that you were going on to ask a question about whether we have the capacity in the Parliament to deal with some of these things. That is a hugely important issue that we have not really touched on in the discussion so far. It is something that we are grappling with. If we are moving to a more complex and more uncertain system, with more data and more uncertainty about that data, there is a big question as to whether we have the capacity in the Parliament to deal with that. If not, what do we do? That has been an issue that we have discussed and which informs much of the broader discussion.

We are interested in views not only on the Parliament itself but on how we can ensure that other, extra-parliamentary institutions, including audit and academic institutions, can be brought into the process.

That is where my head was heading as you asked your question. I have not given a response to the question that you actually asked, but I thought that the issue of capacity was implicit in the first part of what you said. It is a hugely important matter, and we are really interested in people's thoughts on that.

**Don Peebles:** I can offer an answer on the fixed and variable areas of the budget. The closest that we get to multiyear budgets at the moment is through the spending review, which has been with us for 30 years or so. The intention on the spending review was that it would provide some form of certainty on departmental expenditure limits for a period of about three years—although the position would be reviewed every two years—with the exception of annually managed expenditure, which was to be set on an annual basis.

If we think of AME as being the variable, to a large extent we can fix the departmental expenditure limits for around three years. However, that tends to be the case for the resource budgets, and it applies only for a short period of time. The spending review in Westminster tends to be followed, at a certain point in time, by a spending review by the Scottish Government. What is missing from that process is a longer-term look. Consideration needs to be given to how that short-term consideration fits into the longer-term view and the longer-term approach that needs to be taken by Government.

If a medium to longer-term approach to financial planning is introduced, the gaps that you have rightly highlighted will start to be filled in and it will be possible to have a wider picture to undertake objective scrutiny of Government finances.

**James Kelly:** I will round things off with a comment. I thank Professor Mitchell for the answer that he gave to the question that he thought I was asking, as opposed to the one that I actually asked. He has highlighted some really important issues. We have spoken at length in the committee in recent months—particularly when we have been considering the budget—about the importance of the decisions that have been taken and the scale of the changes that have been made. As I said in my earlier summary, it is a question of being able to provide more information so that parliamentarians can take appropriate decisions that make a difference. It is not just a question of getting all the numbers out and making sure that they add up. Ultimately, there are hundreds of budget lines that impact on people's lives. If we want to get it right, we need to have a process that supports that. It is not just a case of people coming to committees, looking at the papers and agreeing with the recommendations.

We want people to be informed. You are right to say that that needs expertise and resource.

**Caroline Gardner:** In the interests of fairness, I think that that is equally true for the Scottish Government. We see that the Government is facing similar capacity challenges in being able to manage all this. That is why I referred in my opening remarks to the need to get the balance right between the aspiration of where we want to get to and the practicality of the steps that we need to take along the way. We are not going to have everything in place for 2017-18 or 2018-19, but we need to think about where we want to get to and what it is reasonable to do to get there.

**Maree Todd (Highlands and Islands) (SNP):** I want to ask about the different options for medium-term planning. Every year, the Government can look three or five years ahead. Alternatively, it can plan for each parliamentary session. I can see that both systems have advantages and disadvantages. Would you like to comment on that?

**Caroline Gardner:** I do not think that we have come to a view on that yet. We are clear that there is a need for a medium-term financial plan that contains a range of things, such as the assumptions that underlie different scenarios and, in broad terms, the priorities that are required. That plan will need to be refreshed by Government anyway to keep it useful and to make it a reasonable underpinning for the annual cycle that needs to happen.

We have not yet explored the extent to which it is a good use of parliamentary time to dig into that every year, as opposed to doing it once in a parliamentary session or two or three times a session, but there is another trade-off there, which takes us back to the question of capacity in Parliament and in Government. As James Mitchell keeps saying, we would be very keen to hear your views on that.

**Maree Todd:** This year, the Health and Sport Committee, of which I am a member, drilled down into the health and social care integration budget rather than looking at the whole budget. One thing that we heard loud and clear was that people would like to have the ability to plan further ahead into the medium term and perhaps have multiyear budgets. Are you hearing about other areas where people are keen on that or where it would be particularly relevant?

**Don Peebles:** I have never detected any resistance generally throughout the public sector to a move towards medium-term financial planning. Some of the barriers usually relate to funding, which sometimes comes back to multiyear budgeting or, in effect, the ability at Government level to budget multiyear. We

sometimes focus on funding and see that as a barrier. If we think about the expenditure side, we see that services, organisations and departments take decisions that will in fact have a long-term effect, whether that is a decision on a care package or a decision to invest in infrastructure. Decisions are being taken on the expenditure side that are necessarily long term. If elected politicians, nationally or locally, can take such decisions, that naturally translates into a desire for an additional suite of longer-term information to assist with that.

You are right to focus on the integration of health and social care, which is in effect a new governance area, with the formation of the integration joint boards. The issue that those boards have is the interrelationship between them, health boards and local government. Both sectors have issues associated with their ability to do multiyear budgeting. You have touched on a combined pressure that will not necessarily be resolved by the introduction of multiyear budgets or medium-term financial planning but, from Government all the way to individual health boards and local government bodies, there is the ability to do that.

**Maree Todd:** Thank you.

**The Convener:** I have a comment before we move on. You have asked for comments, and I have been thinking through the area as we have been talking.

Even if we had the capacity in the Parliament and in Government to do all this, is it the right thing to do? We must be careful not to crowd out the politics so much that we leave it to the side because, actually, Parliament is a political place, and there is a space for politics in the process. The financial issues advisory group, in designing the process when the Parliament was set up, left enough room for Parliament to breathe, but it ensured that, with whatever shape of Government—whether coalition, majority or minority—there would still be some stability through the process. I think that the advisory group did a good job.

Your report points to suggestions from organisations such as the International Monetary Fund and the Organisation for Economic Co-operation and Development. For instance, paragraph 26 says that the OECD has suggested seven different budget reports at different points in the budget cycle. When you talk about potentially recommending that, that begins to make me worry that we might crowd out the politicians and not leave enough space for political discourse. I am worried that, in designing a world-class process that is technically very efficient, we will not have the room that we as politicians all require to have the discussions that we all know go on between

parties and individuals. That worry is beginning to develop in my head as we go through the process. As you try to design this world-class process, are you bearing in mind that political space?

**Don Peebles:** What is paramount is to identify the correct suite of information to enable parliamentarians to undertake that political debate in as enriched a way as possible. You are right that the OECD suggests a suite of seven reports. However, rather than the volume, we should think of the information that is in there. That is the OECD's formulation of what it thinks is necessary for any Government to undertake the discussion. You are right to focus on the ability or capacity to consume seven reports. We do not have to have an answer to that at the moment, but we are trying to focus on the extent to which additional information—beyond what you have at the moment and in relation to the new powers that are coming along—is necessary to enable you to have that discussion. I think that it is right to focus on what you need to enable you to undertake those political discussions, rather than being overwhelmed by the volume of reports that could come your way.

10:30

**Caroline Gardner:** That is a very important question, convener. It is at the heart of what we are trying to reconcile. First of all, Professor Wehner pointed out to us that, although FIAG said that it wanted a designer process that entailed much more parliamentary scrutiny than at Westminster, in practice that has not come through, either in the amount of scrutiny in the process as it stands or in any amendment powers that the Parliament has. We are thinking about what that means and whether those principles are still fit for purpose in a Parliament that is raising half of what it spends for the first time.

A second, personal observation is that we talked a lot this morning about New Zealand, which we in Audit Scotland have been looking at because there is a lot of in-year scrutiny there of what is happening with the budget. What strikes me most about the process there is how apolitical it is. Things that would be on the front page of *The Scotsman* every month here seem to pass without much comment at all in New Zealand. Clearly, there is a cultural dimension and an institutional dimension to that, but our thinking now is very much going toward what the right balance for Scotland is—how to get those principles of transparency, scrutiny and accountability in but how to make it something that works as well.

**Professor Mitchell:** I would only add that there is a big question, which bears on the role of Parliament more broadly than just the budgetary process. That is the relationship between the

Executive and the Parliament. The literature on comparative legislatures suggests that there is a continuum. At one end, there is what are often referred to as transformative institutions, which are able to truly transform recommendations that come from the Executive or, indeed, to initiate things. At the other end are what we often refer to as arenas, where, essentially, the legislature rubber stamps.

The classic example of a transformative institution is Congress in the United States. However, we certainly do not want to go down the route of the budgetary processes there, which are basically pork-barrel politics, with members just adding lines and adding lines. It is a deeply fiscally irresponsible form of budgetary politics.

As I think Professor Wehner has pointed out in his work, the Westminster model, which this Parliament has essentially copied, lies towards the other end of the spectrum. In fact, in many respects, we are a bit of an outlier for a liberal democracy. There is a big question to be raised, which we cannot really address, because it is for Parliament. Do you want to move the Parliament along the spectrum toward more transformative types of institution, without moving to the Congress end of the spectrum? Where on that spectrum would you wish to be?

We do not tend to see, as is often observed, the kind of amendments to finance bills, here or at Westminster, that you would get, for example, in Germany, as Professor Wehner has pointed out. We would like to think that the processes that we are considering and which we will recommend will at the very least permit that kind of move but, ultimately, it will be up to others to decide whether to take advantage of that.

I hear Bruce Crawford's point about the danger of overwhelming members with too much information. My tendency is to think that you can never get too much information, as long as it is good-quality information. However, there is a filtering process, and that brings us back to the point that I was trying to make earlier about capacity. All these issues are interlinked.

I would say that there is a spectrum rather than a binary divide between less and more transformative. The initial intention of the consultative steering group was that the Parliament would be a more transformative institution, but I do not think that that has happened.

**The Convener:** We are speaking about amendments, which is Neil Bibby's particular interest.

**Neil Bibby (West Scotland) (Lab):** What we have just been discussing is very interesting. I know from your report and from Professor



Wehner's contribution that you have not reached a defined view on the issue of lodging amendments during the budget process, and I know that you will want to explore further with the committee and others what, if any, mechanism should be used in that regard.

I am keen to find out more about your hesitancy to come to a view on that. Surely in general we should have a mechanism and the Parliament's committees should have the right to lodge amendments during the budget process. I suppose that that is a bit of feedback and a bit of a question.

**Caroline Gardner:** I guess that our starting point is that we are very conscious that we will make recommendations and Parliament and Government will have to agree to them. One of the reasons for going through this interim phase is to get feedback and soundings on what our political system thinks about how far the FIAG principles are fit for purpose and have worked in practice; how far we need to change that; and how far, whatever we think, things are changed by the introduction of significant revenue-raising powers.

James Mitchell talked about the risk of amendment powers leading to pork-barrel politics. We have seen that in other countries as well as the US. Professor Wehner made the point that we need to think in terms of institutional checks and balances. It is possible to have amendment powers where you are working within a fixed ceiling of revenue to be spent, so that if you are looking to increase something you have to reduce something else. Equally, it is possible to make your amendment powers wide open, so that if more is being spent, the money for that needs to be found somewhere.

There is a spectrum of choices to be made. The vision for what the political system looks like in relation to the budget needs to be a decision reached between the Parliament and the Government and it needs to be one that works in the Scottish context. We are testing out views and perspectives on that right now.

**Professor Mitchell:** Another dimension that members will be aware of is that although formal amendments might not be moved in the Parliament, negotiations will take place, particularly, but not only, with minority Governments. There is a really interesting question here about transparency, because one of the great problems with any negotiation is that it is very difficult to conduct it in public—you need some degree of privacy. Therein lies a real challenge, given that transparency is another key objective in any good parliamentary process.

Neil Bibby's point is well made, but the issue is not so much that amendments are not being put

forward. There are opportunities for parties to have an input, but we are struggling with how we take that into account. It does happen—I see Patrick Harvie nodding his head vigorously; he may have been part of such a process—but there is a real issue there.

**Neil Bibby:** If you propose amendments, you have to show where the money is coming from. In the previous budget, we saw a substantial amount of money from underspend brought forward from what is normally declared in June. I have said to the finance secretary before that there should be more transparency about underspends, because they represent a potentially significant sum of money that could be used for amendments to the budget. To be fair to the cabinet secretary, he has said that, if we ask for it, he is willing to provide more information on an on-going basis about where underspends are at various stages of the budget process. Should we formalise a mechanism whereby the Parliament and the committee know what the underspends are—I do not know on what basis, but certainly during the budget process—in order to allow us to make more informed decisions?

**Don Peebles:** That goes to the heart of what we are discussing: what the new process should look like and what information complement is required. You have hit on a good example. There probably is a time for that information to be provided to the committees and to parliamentarians. I would not want to focus only on underspends, important though they are. It is important to say that they are one part of an additional suite of information that should be put in front of you to allow you to make an informed choice about what amendments, if any, are necessary and what alternative spending proposals could be made, based on the best information possible. There is also, however, reluctance to be overwhelmed by an additional suite of information. There will have to be a trade-off between your capacity to consume that information and then to channel it into discussions with Government and other parties about what amendments could be made.

**The Convener:** Patrick, you and I have been involved in a lot of these transparent discussions in the past. [*Laughter.*]

**Patrick Harvie:** Yes—they have sometimes gone well and sometimes badly. That is part of the problem here. I am fascinated by the comparison between the earlier section on alternative tax and spending proposals, which starts at paragraph 54, and the later section on informal negotiations, which starts at paragraph 106. The first section seems to suggest that the FIAG argued for early opportunities for Parliament to consider alternative proposals and to subject them to scrutiny.

That clearly requires more transparency than we have seen to date on things such as how much flexibility is really available to the Government and year-to-year comparisons so that people can see what the changes actually amount to as well as being able to assess things such as the socioeconomic impact of budget changes now that tax is part of the mix as well as spending.

However, inevitably—as you say—there are also informal negotiation processes, which happen differently under different forms of Government. I remember that during the last period of coalition in the Scottish Parliament, there were already concerns that the informal discussions that happen in the formation of a coalition Government, which are also in private, can risk leading to a lack of coherence about the financial impact throughout an entire term of Parliament. That is because those negotiations happen at the beginning and they do not necessarily give flexibility—they can lock in priorities based on the political value that each party in the coalition attaches to them, so you can end up with less coherence about the budget overall.

Negotiation processes happen differently with a majority Administration, which can choose to listen if it wishes to but does not have to, and differently again with informal negotiations, which occasionally—not always, but occasionally—have been at the level of games of brinkmanship, literally in the last hours and minutes of the process.

It seems to me that if we want a process that works for all the different scenarios, alternative proposals, wherever they come from, whether from one individual member—a Government back bencher or an opposition party member—or from opposition groups or from outside Parliament, all need to be subject to parliamentary scrutiny. If there is a requirement that anyone who proposes a particular budget change must give evidence to this committee or its successor committee prior to that last-minute process, it creates an absolute requirement on those who are involved in informal discussions to have them early, so that they result in proposals that can then be subject to scrutiny. Members or others who are seeking to persuade colleagues about a change will then have to persuade Parliament, rather than just be seen to be in a one-to-one arrangement with Government, the implication being that this is all about the power of Government to grant its goodness to whoever it chooses.

**Professor Mitchell:** That was very useful. You summarise some of the challenges and questions that we face. You said that we should have a system that works under any of the scenarios and that is exactly what we want. That may mean that we end up having a number of ways—a multitude

of ways—to carry out scrutiny, from Parliament assessing proposals at the outset, right the way through.

The danger is that if we were to draw up a list of all the different ways that we could scrutinise, you could spend all your time in this Parliament scrutinising the budget. That may be a problem.

**Patrick Harvie:** I am suggesting that it boils down to one principle—that whoever is looking to influence change has to appear publicly in front of parliamentary committees and answer questions at some point in the process.

10:45

**Professor Mitchell:** I take the point. I was just looking for it there, but I think that in the report we make the same point about the importance of scrutinising policies at the outset of a Parliament. Of course the budgetary implications of those are important, too.

In our deliberations, we are very conscious of what you have highlighted. I am not pretending that it is easy, but—and this applies not just to budgetary politics, although I hesitate to give other examples—there are and always will be occasions when negotiations will have to take place in private. However, after such negotiations, there needs to be public scrutiny. Woodrow Wilson, who was a great political scientist and student of government as well as an American President, used to talk about

“Open covenants, ... openly arrived at”.

That notion has been totally discredited—you cannot arrive at a decision through negotiation in public. However, once a decision has been made, it needs to be open to scrutiny. I am speaking personally here—I am certainly not speaking on behalf of colleagues—but I think that we need to ensure that we get to that point.

I do not know whether that helps.

**Patrick Harvie:** It does. Thank you.

**Caroline Gardner:** The two sections of the report that you have highlighted, Mr Harvie, reflect the fact that we have not yet reached a position on whether we should recommend amendment powers. If not, there will continue to be informal negotiations, and as James Mitchell has said, there is a question then about how you get some transparency into that process.

**Murdo Fraser:** Following on from Mr Bibby's lines of questioning, I have two observations rather than questions, but I am happy to hear the witnesses' comments on them.

First, I want to talk about the size of the budget. After the draft budget was presented in December,

we went through a process up to the stage 1 debate in February, when an extra £185 million appeared, some of which came from underspends and some from the business rates pool; three weeks later, the finance secretary found another £42 million after addressing an issue with business rates; and then there were Barnett consequentials of, I think, £145 million from the UK Government's spring budget. According to my rough calculations, then, the final budget for the coming year is more than £370 million higher than the draft budget that was presented to Parliament in December and which this and other committees of the Parliament sought to scrutinise. That raises the question of how we can properly scrutinise a budget if a lot more money subsequently appears.

Secondly, I want to make a point about amendments that I made in private when the committee looked at its budget report. The rules make it very clear that members who propose an amendment to the budget that would increase spending on something must specify where spending should be reduced and vice versa. That rule seems to me to be rather out of date. It applied when we had a fixed budget, but our budget is no longer fixed; to a large extent, it depends on the growth or decline of the Scottish economy. As a very current example, the Scottish Government argues that in seeking to reduce air departure tax it does not need to replace every penny lost because of the growth in tax revenue elsewhere. If I was going to propose a tax cut in the budget, I would argue that we would be able to replace and get back at least some of that money through economic growth. Is the rule that we are currently bound by out of date and does it need to be revised?

**Caroline Gardner:** On your first observation, Mr Fraser, I absolutely recognise your description of this budget round; it can be applied to other rounds, too. For me, it comes back to the importance of the big picture and the fact that the block grant from Westminster and the forecasts of the revenues from devolved and assigned taxes is no longer that big picture. We have increasing powers of revenue borrowing, we have the Scotland reserve and we have other pockets of revenue such as non-domestic rates that are all accounted for outside the core of the budget document. Whatever the legislative vehicle looks like in future, having that big picture is important if you are to understand the choices that you are making, the fiscal risks that might be involved and the longer-term sustainability questions that might come through.

I have reported separately that we do not have that in outturn terms. There is the Scottish consolidated fund, but a lot of activity around that is not captured. The same is equally true in budgetary terms. It is increasingly important to

have that picture, so that we can understand the scale of room for manoeuvre and think about the long-term fiscal sustainability of choices that are being made.

**The Convener:** Murdo Fraser's second point was just a comment.

**Murdo Fraser:** I will be happy to hear from anyone who has a view, but it was just a comment.

**Patrick Harvie:** I have a view.

**Ash Denham:** I have a view, too.

**Adam Tomkins:** But you are not on the panel. *[Laughter.]*

**Professor Mitchell:** It is a challenging point to comment on. The only comment that I can give at this stage—I do not want to align myself with others who might not want to be aligned with this view—is that it is the role of the Parliament to challenge assumptions that the Government is making about changes in relation to taxation, and to look at the evidence. If it is being assumed that increasing or decreasing a particular tax will lead to growth in the economy and a bigger tax take, and such assumptions are backed up with evidence, that is fine; if members feel that that is not the case, it is their role to challenge the assumptions. That is where the politics come into it. I do not think that there is any process that can address that; it is a highly political process.

**Murdo Fraser:** Yes, but my point was that the rules under which we currently operate do not allow us to have that debate.

**Professor Mitchell:** Sure.

**The Convener:** We move on to an important area, which we have not yet covered. We have been talking about the Government and the Parliament, and we need to think about how we involve the public.

**Liam Kerr (North East Scotland) (Con):** That is exactly the issue. The discussion has been very technical. Professor Mitchell talked about a move to a more complex and uncertain system, and James Kelly talked about hundreds of budget lines. The interim report talks about public engagement. What does the group see civic Scotland adding to a process that civic Scotland arguably has little interest in and perhaps even less understanding of?

**Don Peebles:** I challenge the assumption that the matter is of little interest to civic Scotland; I would have thought that it is at the heart of what civic Scotland should be interested in.

Where I agree with you is on the overall premise that public engagement is difficult; it has been difficult for a long time. If you look at the practical

elements of the budget, you see numbers on a scale that few people can comprehend. The budget documentation is not presented in a way that is meaningful to the ordinary citizen—if I may use that term.

As a result of developments over the past few years, such as the Community Empowerment (Scotland) Act 2015, individuals are able to become involved in participative budgeting at local level, which I suppose is more meaningful to them. It is at that level where we find public engagement of the pure type that we understand. In the scrutiny process that this committee undertakes, you probably do not see many members of the public, but you see representatives from civic Scotland, and you see groups and organisations that we represent, too.

The question that we are asking openly is this: what are we seeking to achieve from public engagement? In the past, this committee has gone to the public—you have gone to different towns to speak to organisations and individuals, and you have used social media. We are genuinely asking what public engagement should look like and how we get the public to engage with us.

Speaking as someone who puts information into the public domain, I can say that in matters of public finance it is not uncommon to find it difficult to get individuals to engage with complex documents. Sometimes the barrier is the presentation; documents are not presented in a way that is easily readable and understandable by individuals. Because public bodies have a complex story to tell, it can be difficult to translate that into something that is easily readable.

There is an open question about what public engagement should look like, but I say instinctively that there should be a direct line to the public and the public should have a direct line to the process.

**Caroline Gardner:** In many ways, public engagement is difficult—you are right about that—but it has never been more important. That takes us back to the premise of Murdo Fraser's question. We are moving into a new world, in which Scotland has, to some extent, a choice about the sort of society that it wants to be. Does it want to be relatively high tax and high public services, like Scandinavian countries, or does it want to be low tax and lower public services, like the United States?

That is a discussion that only the public can have. At the moment, it takes place indirectly through people's support for political parties. The budget process represents a chance to open up that conversation. There are some interesting initiatives under way. My predecessor took part in a citizens jury back in about 2010; people got very engaged in understanding public finances and the

choices that were available. I think that James Mitchell's colleagues at the Academy of Government have done some interesting work on citizens budgets and budgeting, whereby people are being very much involved in the choices and trade-offs that are made. In the report, we do not say that that is an easy thing to do but, increasingly, it is a very important thing to do. We do not want to lose sight of that dimension to the changes that the Parliament is considering.

**Professor Mitchell:** Absolutely. Some of my colleagues are doing work on participatory budgeting, for example. That is relevant in terms of citizen engagement.

We must distinguish between engagement with civic Scotland, by which I mean institutions and organised interests, and engagement with the public. It is much more challenging to engage with the public than it is to engage with civic Scotland. With civic Scotland, the challenge is one that I know that the Parliament is well aware of—how to avoid going to the usual suspects and how to broaden out the process.

One of the lessons that we have learned from the work of the Scottish Parliament is that, instead of expecting people to come here, we need to get out there and to be conscious of the language that is used. We must also be conscious of the level of discussion. I do not think that there is much point in getting members of the public together to talk about the technical detail, but these issues all affect the public. In that respect, they are of interest; they affect people's lives. It is a challenge for Parliament to find a way of articulating itself and listening to the public. Members are better at it than we are—it is part of your daily job; it is what you do. You engage with constituents and the public. We need to try to harness that and not just have engagement when elections come round—although they come round quite often—as Caroline Gardner said.

In the report, we discuss the different approaches and the different opportunities that exist for scrutiny. There might be some that are more appropriate for engagement with the public and some that are more appropriate for engagement with civic Scotland, but I stress that the biggest challenge here is one that I know the Parliament has been grappling with, which is to avoid the usual suspects.

**Liam Kerr:** That certainly addresses the how. In his answer, Mr Peebles posed a question about the why. He asked what we seek to achieve through public engagement. I appreciate that Caroline Gardner attempted to answer that, but I might pose the question again, because I am not sure that it was answered fully. I concede that the how is complex, but given the points that Professor Mitchell made about what we as

representatives are here to do, and the expertise that there is on the group that is putting the process together, what are we seeking to achieve by going to the public?

**Professor Mitchell:** The public are the experts—they experience the public services. I think that it is possible to learn a great deal from engaging with the public. I think that, historically, the failure to engage with the public on public policy has been an error over a long period of time in Scotland. We have done things to people and for people, rather than with people. I speak as a former member of the Christie commission. It is key that we continue to strive to engage. I think that the Parliament does a reasonably good job in that respect; it does a much better job than many other institutions. We can have technical expertise, but there are no greater experts on public policy provision than those people who experience services on the ground. We can learn an enormous amount from them. It might seem small scale, but it is remarkable how much change it is possible to bring about.

It is a question of prioritisation. There needs to be public engagement not just on the big questions that Caroline Gardner mentioned, but on quite minute detail. I do not have the experience of some of the welfare reforms that many members of the public have—in that respect, they have an expertise that I could not have. There are different ways of looking at the issue. I do not know whether that answers your question.

**Liam Kerr:** I think that it does. It emphasises the point that you made earlier—it is a case of making sure that the usual suspects are not the ones with the loudest voices.

**Professor Mitchell:** Indeed.

**The Convener:** This has been an extremely helpful session from our perspective, and I hope that it has been from yours, too. The nub of the issue that you are tackling is how we get a system that simultaneously provides the Parliament with an appropriate level of scrutiny and challenge, that allows a Government to get through a safe budget to support economic wellbeing and the public services, and which ensures that, as the process comes to a conclusion in Parliament, an all-party agreement can be reached in a way that gives the public confidence in the Parliament and the system. That is the only way in which we will give the public confidence.

It is quite a challenge that the review group has been set. Thank you very much for coming along and helping us to begin to tackle that challenge and to unpick the work that you have been going through. I look forward to reading the final report when it comes out.

11:00

*Meeting continued in private until 12:00.*



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