

# **FINANCE COMMITTEE**

Tuesday 17 June 2008

Session 3

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# CONTENTS

Tuesday 17 June 2008

	Col.
<b>BUDGET PROCESS (REVIEW)</b> .....	627
<b>DECISION ON TAKING BUSINESS IN PRIVATE</b> .....	648

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## FINANCE COMMITTEE 17<sup>th</sup> Meeting 2008, Session 3

### CONVENER

\*Andrew Welsh (Angus) (SNP)

### DEPUTY CONVENER

\*Eaine Murray (Dumfries) (Lab)

### COMMITTEE MEMBERS

\*Derek Brownlee (South of Scotland) (Con)  
\*Joe FitzPatrick (Dundee West) (SNP)  
\*James Kelly (Glasgow Rutherglen) (Lab)  
\*Liam McArthur (Orkney) (LD)  
\*Tom McCabe (Hamilton South) (Lab)  
\*Alex Neil (Central Scotland) (SNP)

### COMMITTEE SUBSTITUTES

Roseanna Cunningham (Perth) (SNP)  
Ross Finnie (West of Scotland) (LD)  
Murdo Fraser (Mid Scotland and Fife) (Con)  
Peter Peacock (Highlands and Islands) (Lab)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Jo Armstrong (Centre for Public Policy for Regions)  
Alex Brazier (Hansard Society)  
Professor Irvine Lapsley (University of Edinburgh)  
Professor Iain McLean (University of Oxford)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Mark Brough

### ASSISTANT CLERK

Allan Campbell

### LOCATION

Committee Room 2



# Scottish Parliament

## Finance Committee

*Tuesday 17 June 2008*

[THE CONVENER *opened the meeting at 14:02*]

### Budget Process (Review)

**The Convener (Andrew Welsh):** Good afternoon and welcome to the 17<sup>th</sup> meeting of the Finance Committee in 2008, in the third session of the Scottish Parliament. I ask everyone, including witnesses and members of the public, to turn off any mobile phones and pagers, as they interfere with the broadcasting system. I have set a good example.

Agenda item 1 is further evidence in our review of the budget process. Members will see from the agenda that we were due to have two panels of witnesses with us today, to give us a perspective on the current budget process from people who are external to the Parliament and to consider comparisons with processes elsewhere. Unfortunately, we found out this morning that Professor Colin Talbot is unable to be here, so Alex Brazier, from the Hansard Society, has kindly agreed to join the first panel. I welcome him to the committee.

I also welcome Professor Irvine Lapsley, from the University of Edinburgh, and Professor Iain McLean, from the University of Oxford. We expect Jo Armstrong, from the Centre for Public Policy for Regions, to arrive later—she has been delayed. I invite the witnesses to make a brief opening statement.

**Professor Iain McLean (University of Oxford):** I hope that my written submission speaks for itself, so I will be brief. When the committee asked me to give evidence, it was clear that the subject of its inquiry is not directly the Barnett formula and issues related to that. Nevertheless, as soon as I sat down to compose my submission, I felt that it is impossible to get away from the Barnett formula. That is why my submission takes the form that it does.

I apologise for the fact that the supplementary evidence that I submitted, which is my joint work with Guy Lodge and Katie Schmucker from the Institute for Public Policy Research, is rather rough. We had hoped to get the final paper out by now, but it is not yet out. It will be available before the inquiry finishes and we will ensure that members get it when it is. Otherwise, I hope that my evidence speaks for itself.

**Professor Irvine Lapsley (University of Edinburgh):** My submission sets out my views on the issues. There is scope for the committee to discuss how it interprets the courses of action that are open to it. I try to flag up those options for what I understand to be budgetary scrutiny and to say where the committee might sit. I also make some observations on effectiveness—there are some positives and some challenges for the committee.

**Alex Brazier (Hansard Society):** The Hansard Society seeks to promote effective parliamentary democracy. In 2006, we produced a report called “The Fiscal Maze: Parliament, Government and Public Money”, which considered how Westminster could improve its scrutiny of financial matters. I hope that some of the themes in the report will prove useful to the committee’s inquiry.

**The Convener:** I welcome Jo Armstrong, who has now arrived. I am giving panel members the opportunity to make a few introductory comments.

**Jo Armstrong (Centre for Public Policy for Regions):** I apologise for arriving late. My legs do not carry me quite as fast these days and I missed the train for which I was heading. I will catch my breath.

Thanks for inviting me to the committee to give evidence on the review of the budget process. I am currently an independent economist and spend part of my time working with the Centre for Public Policy for Regions. In addition to a variety of other things, we undertake scrutiny of and commentary on the Scottish budget.

Our submission is split into two parts. One is on operational issues and the other is on strategic issues. I know that the process that you are undertaking focuses primarily on strategic issues, but our review of the 2007 budget highlighted a number of operational issues that are worth taking on board. Irrespective of the strategic direction of the review, the independent scrutiny that we currently undertake could be substantially improved if those issues are addressed.

We have highlighted a number of strategic issues, primarily around scrutiny of the Scottish Government’s strategy and the link between that and the budget; the perennial problem of the efficiencies programme; and the issue of advisory support to the committee. I am happy to take questions on operational or strategic issues.

**The Convener:** I will start with a general question. Scotland’s budget process has generally been thought to compare well with that of other countries in respect of transparency and the role of Parliament. What is your assessment of how we compare?

**Professor Lapsley:** The system stacks up pretty well. We must bear in mind that there has been a significant advance since devolution, as there was very little scrutiny of Scottish affairs prior to the creation of the Parliament. Since then, the Finance Committee has enhanced the scrutiny process. It is difficult to get hard comparators, but the Scottish Parliament stacks up well compared with institutions such as the Northern Ireland Assembly, the National Assembly for Wales and Westminster. A deliberate attempt has been made to move to a more inclusive and considered approach to budgetary scrutiny. That is evidenced in the activities of the committee and the Parliament. There is much of which to be proud, but there are issues and there always will be.

**Professor McLean:** I agree with that. You have excellently designed institutions for the budget process of an independent state or a state with substantial fiscal autonomy. Of course, what we have is neither of those, which is why my evidence draws attention to the awkwardnesses of the ambitions that were expressed 10 or 12 years ago by the financial issues advisory group and the consultative steering group. Under devolution as we have it, those ambitions seem to me to be very difficult to realise.

**Alex Brazier:** I certainly agree with that. The Scottish Parliament's financial procedures for scrutinising the budget are very effective—certainly compared with those of Westminster. Our report shows that Westminster's consideration of forward expenditure has been weak; in fact, we have pointed out that the Scottish model, which allows committees to scrutinise, engage with the public and take expert evidence at various stages in the process, is much better, and we hoped that Westminster would move towards something approaching Scotland's committee-based approach. However, Parliaments cannot be easily compared, as they are all somewhat different. A Parliament's culture often dictates whether its procedures work. It is not simply a matter of changing procedures sometimes. However, I agree that many routes for scrutiny in the budget process exist in Scotland, and I commend that.

**The Convener:** From my time in Westminster, I know exactly what you mean.

**Jo Armstrong:** I am not comfortable with discussing the comparative benefits or merits of the Scottish Government's position vis-à-vis what happens in other jurisdictions. It is clear that the budget process and scrutiny of the budget have substantially improved in the past 10 years, but the question is how, having reached where we have reached, we can improve things as opposed to just sitting on our laurels and saying that we have a perfect process. There is room for improvement.

**The Convener:** We do not have perfection, but we try to get as close to it as we can.

**Tom McCabe (Hamilton South) (Lab):** It seems to be agreed that the procedures in Scotland have improved, but have they improved to the point where the public feel more involved in the budget process, to the point where the contest between the Parliament and the Government of the day is more even—it is often uneven—and to the point where budgetary outcomes are manifestly better, rather than simply the bureaucratic process looking better without making a practical impact?

**Professor Lapsley:** I know that the Parliament tries to provide the opportunity to involve people right across the board, from all areas of society. MSPs and the Government have taken the budget out, but the problem of including the people in the process is hard to crack, because they find public finances difficult to understand. They know about services that are immediately in front of them—they know that their refuse is not being collected or that schools are facing rationalisation or closure—but it is difficult for people to take a global view of public finances. I have seen the Finance Committee, the Parliament, the Government and its predecessors taking issues out on the road, which is admirable, but I do not think that they have quite achieved what they wanted to achieve, because including people in the process is so difficult.

Perhaps you could remind me of what else you asked about, Mr McCabe.

**Tom McCabe:** I asked about the evenness of the contest between the Parliament and the Government.

**Professor Lapsley:** That is the nub of the matter in some ways. MSPs can ask questions, but the Government of the day will do as it sees fit. If the Government has a majority, there will be an uneven contest, but that should not inhibit MSPs from asking the most searching questions.

The question raises issues to do with the nature of the scrutiny process that the Parliament wants. There are clear choices to be made about the route that the Parliament wants to go down. The issue is big; indeed, we are talking about the nub of the matter.

It is important to consider outcomes, but it is difficult to measure the outcomes from a lot of spending. It is difficult to measure the outcomes for patients if expenditure on health care is increased, for example. The causal links do not quite exist, so measuring outcomes is hard. However, looking beyond the impacts on the Scottish people as a whole, there is one simple, narrow measure of outcomes. We can consider the extent to which the Parliament and the

Finance Committee have wrested control from the Executive or the Government and changed the budget. That has not been achieved, which is further evidence that an uneven contest exists.

The whole process of measuring the impact of the budget and considering whether politicians are doing their best for the people is a huge issue. It is entirely understandable that politicians should want to move in that direction—that is why you are here—and I am full of praise for people who want to take such an approach, but I acknowledge the difficulties.

14:15

**The Convener:** Can you give an example of a Parliament that has wrested control of the budget from the Government?

**Professor Lapsley:** The point is that we have entered an entirely new era. Minority government and proportional representation have brought an entirely different kind of politics. The minority Government in Scotland has successfully taken its first budget through Parliament—it is great that that was achieved democratically. In such a context there is scope for change.

You ask for examples of Parliaments that have challenged Government. You will look in vain to Westminster for such examples. You might also look in vain to many countries that operate a system of proportional representation, given how the system is implemented. In the Scottish setting there might well be scope for more fusion of ideas from the Parliament and the Government, whichever party is in power.

**Alex Brazier:** On engagement with the public, we have argued for a long time that people understand almost nothing of the financial procedures at Westminster. Anything that helps people to understand what goes on would be welcome. At the most basic level, we must ensure that the terminology to do with the information and procedures is easily accessible, because unless we start from first basics, people will not be able to engage at all.

We then need to offer feedback about what was done in the Parliament, so that people can understand why a decision was made and why a particular course of action was chosen over another. Just to set out the bald end-point is pointless; the process that led to the decision must be explained, so that people can understand why their views did or did not prevail. There is a need for information and feedback.

How equitable the relationship should be between Parliament and Government depends on what people want from the relationship. It was clear from our study that people wanted different

financial models. Some people wanted the American model, whereby Congress has control and can stop the Government; some people thought that that would be a nightmare and took the opposite view, saying that, for all its faults, the Westminster system provides certainty and stability and enables people to oppose the Government if it makes a decision that they do not like, even though the Parliament has little power.

Other people wanted the model that operates in continental Europe, where most Parliaments can make adjustments at the margins, by which I mean that Parliaments can make recommendations for adjustments within a budget although they are not usually able to increase the budget. There was no overriding view in the evidence that we took and people had very different views on what they wanted their Parliament to do and on the outcome of their preferred approach. Where Scotland fits into that is a much bigger picture.

**The Convener:** At one extreme of the spectrum is Westminster, where the budget is nodded through and the Government always gets its money. At the other extreme is a Parliament that can rewrite the budget from top to bottom. Can you give an example of best practice in the operation of checks and balances? Which countries have just about got the balance right?

**Alex Brazier:** We found that people's views on that depended on their political views about the relationship between Parliament and Government. As I said, there is a continuum of views. Many people in Westminster advocate the continental European model, in which in essence we can be fairly sure that the Government will get the overall total that it wants but the Parliament can make changes. The Liaison Committee at Westminster recently brought out a report that more or less said that the all-or-nothing view at Westminster—which is more “all” than “nothing”, because the Government gets what it wants and the nuclear option, which would be to reject the budget, is never taken—is far too black and white and there should be scope for adjustment at the margins. In that way, if there was a case for spending more on road, rather than on rail, or vice versa, there could be a debate and an opinion of the House about that. That tends to be the middle ground for most Parliaments.

**The Convener:** You referred to continental Europe. Were you talking about the European Parliament or about countries such as Italy?

**Alex Brazier:** I was not talking about Italy. Scandinavia is often mentioned as an example. I do not claim to be an expert on Scandinavian Parliaments, but it is often said that in Sweden and Denmark the Parliament has some sort of negotiation battle with the Government.

**Professor Lapsley:** The system in New Zealand is much closer to the Westminster model in terms of getting results, because the winner takes all. I concur with the view that Scandinavian countries have a much more elaborate democratic process of discussion whereby the Parliaments have a level of influence. The Scottish Parliament could aspire to that model. There are issues around how the Scottish Parliament goes about its business and what it seeks to do.

To return to Mr McCabe's question, there is an uneven contest. If you sought to look at the totality of the Scottish budget and meet the Scottish Government head on, that would be an uneven contest. In my submission, I shared some ideas about different ways in which budgets can operate. The Finance Committee and the Parliament could be much more selective and could have a strong voice, which is important. The budget scrutiny should not be seen as a battle of wills; we are trying to get the best result for the Government and the people. It would be tremendous if the committee and the Parliament had a stronger voice. Under the present arrangements, there are ways in which the committee and the Parliament could have a stronger voice and exercise more influence on the composition of the budget.

**Jo Armstrong:** Irrespective of the overall framework within which we operate, more could be done with the current approach. There is a significant imbalance between the Government and the Finance Committee. You are looking at what the Government wants you to see and you have to tease out the bits that you do not yet see, which might be more important. That is why your having a more resourced, independent scrutiny function would help to make the process less imbalanced.

Rather than saying that you want to introduce different programmes in the budget, it is incumbent on you to scrutinise closely the link between the strategy and the current allocation of funding. It is not clear how the current strategy is going to be delivered, given the current allocation of funding. You could play a much stronger role by teasing out from the Government how it envisages that the current funding will deliver the strategy. I accept that outcomes are difficult to measure and that results are produced over a fairly long period. However, the Government must say, "That's what we think is the transmission mechanism. Let's see whether it works." Over a period of time, the Government can be challenged as to whether the mechanism has worked. That is an important function that the Finance Committee could develop.

**Elaine Murray (Dumfries) (Lab):** There will not be the same level of public interest in the Scottish

budget as there is in the Westminster budget until the Scottish Parliament uses its powers—or the increased powers that it might get—either to take money out of, or put money into people's pockets. At the moment, to a certain extent, we shuffle the cards and do not make the sort of difference that really engages the public interest.

Is it the purpose of scrutiny to determine whether the Government is funding its priorities and strategic objectives in order to achieve its aims? By doing that, we would not challenge what the Government wants to do, but consider whether it was doing that as well as it possibly could. With a minority Government in particular, Opposition parties will want to introduce some of their own priorities, which will not necessarily be in line with the Government's priorities. Opposition parties might want to introduce alternatives based on what they want to deliver and be seen by the electorate to deliver.

Should those roles be differentiated? Should there be a role for committees to scrutinise whether the Government is doing what it says that it is doing and a separate procedure that enables Opposition parties to put forward alternatives, on their own, with each other or, indeed, with the Government? We do not have that differentiation at the moment.

If so, how would that system be best resourced? There is an issue, which some of the witnesses touched on in their submissions, about how such budget work should be supported in the Parliament. There are differing views about having panels of advisers or a separate unit in the Parliament that supports committees and possibly Opposition parties in framing amendments.

**Professor McLean:** I can tell members a short anecdote that I have learned since I submitted my evidence. I had an extremely interesting morning in the national archives at West Register house. As many will be aware, someone—I believe that they are a Scottish National Party researcher, although I have not met the person—has forced out of the Scotland Office, kicking and screaming, papers on negotiations between the Scottish Office and the Treasury in 1984 about Scotland's block grant. I spent the morning reading those Scottish Office papers, although I have not seen the Treasury papers. I have submitted a freedom of information request for them, so I will perhaps be able to talk about them another time.

At the time, the Chief Secretary to the Treasury was saying to the Secretary of State for Scotland, "We're going to cut your baseline by £100 million but nobody will notice." The Scottish Office civil servants briefed their minister, George Younger, that the Treasury could not do that because—this is an interesting reason—the adviser to the select committee was so sophisticated that he would



notice. I believe, although I have not yet checked, that the adviser in question was Professor David Heald, who is one of the four people outside Government who understand the Barnett formula.

That speaks to the end of the question. For a system to run well—whether that is parliamentary budget staff or committee advisers—it needs to be well resourced. Westminster is quite a good model of *ex post* scrutiny: the large Comptroller and Auditor General's department, which is now the National Audit Office, works reasonably well, although elected MPs have little role in it. However, I agree with the other witnesses in that, in Westminster, the *ex ante* scrutiny of budget options does not work at all.

**The Convener:** Having advisers who notice is an excellent policy.

**Professor Lapsley:** Taking the budget to the people is important, but we must recognise the difficulties. It is important that there is a lively debate in the Parliament to inform all the commentators—the media and the experts—and through them, the public, but that is difficult to achieve.

On the question of how to proceed, two particular strategies merit some careful consideration. In my submission, I suggest that the Scottish Parliament's current approach is to look at the increment to the budget and where the increase goes, although there are also some minor changes to actual budget proposals. That is the current focus. It can be effective, is entirely logical and defensible, and captures the nature of the budget that we have for Government activity.

An alternative strategy would be to move closer to the Scandinavian model, beyond budgeting, which I mention in my paper. It is a movement of people who are sceptical of budgeting and it operates on two levels. The first level is compliance. The Parliament must approve the budget so that it has a legal compliance status—that is important. On the second level, the beyond budgeting approach is to ask strategic and focused questions of the budget, without necessarily looking at its totality. If you become so embroiled in the budget that you see only wave after wave of figures, there is a real danger that you will not be able to see the wood for the trees. Beyond budgeting is an entirely different approach. It is important that, as a committee, you can identify key levers, key performance measures or other key factors to examine. You would not have to focus on the same issue every year. One year, you could identify a particular strand of public policy and home in on it. If you did that, you would achieve much more effective outcomes and might even change the composition of parts of the budget, which would be entirely consistent with the democratic accountability aspect of the Parliament's work.

14:30

Let us turn to the issue of resourcing. It strikes me that there are three main options: to tap into existing resource; to create entirely new resource; and to organise yourselves more efficiently and effectively. I favour the third of those options and will explain why.

As regards existing resource, for some time it has been mooted that the expertise of Audit Scotland could be tapped into. It is a big, well-resourced organisation that supports the Audit Committee and has a lot of clout. However, as Professor McLean said, its activity is *ex post*—it is about scrutinising things after the event. The committee wants something different—you want to take a forward look, which is altogether more challenging. Given that the Scottish Government is your Government, another possibility is that you could seek resources from the Government to support your work, but that could result in a conflict of interests.

A separately funded office that would sit within the Parliament could be set up to support the committee's work, but that prompts the question that the convener raised: what is the function of the committee or the Parliament? Is it to cast another budget or is it to test democratically the policies that are advocated by our Government, regardless of its political hue? I think that it is the latter. If we were to go down that route, we might store up a whole set of issues to do with the establishment and maintenance of such a body and the retention and recruitment of people for that particular function.

As regards the third option, making more efficient use of existing resources, there is no doubt that the Parliament and its committees have excellent advisers, but there is a case for more concerted action, particularly around the budgetary review. There is no doubt about the expertise that exists in the Parliament's committees. If much more focused and concerted action were taken, extremely detailed questions could be asked of the Government as it brought forward its budget.

It is difficult to achieve that across the board. I am sure that, as members of other committees, you will know that all the committees have big agendas and get their teeth into numerous issues. If we flip back to my idea of adopting the beyond budgeting approach, which would involve taking a highly focused look at key issues and themes, the Finance Committee could work closely with another committee to home in on the structure of a particular element of the budget. It could ask testing questions of the Government that might result in changes, which would fully satisfy the committee's role as a body that undertakes scrutiny. That is achievable and doable within the

current framework. I recommend such an approach as being preferable to attempts to tap into an existing resource or to create a completely fresh resource.

**The Convener:** Is there a model of such a system that we could look to?

**Professor Lapsley:** I think that we are in the process of becoming the model. People's desire to have other reference points is fully understandable, but we should aspire to become a model that people look to. We may very well be that model.

**The Convener:** We seek to please.

**Jo Armstrong:** I take Professor Lapsley's point about the development of a brand new independent resource and agree that that would not be desirable from the point of view of sustainability and cost, but I think that slightly more is required than the adoption of a beyond budgeting approach.

I spent the past two years reviewing the budgets as an independent scrutineer and I struggle to understand some of the stuff that is going on. The notion exists that we could get the public engaged in the work, but it seems to me that we are a long way from achieving that. Some of the key things that are essential to making the scrutiny function work are that we trust the data, that we understand the time-series data, and that we understand the links between the initiatives.

To my mind, we have a long way to go before we are truly comfortable about the data. I know that a lot of work has been done and that the budget advisers put in a lot of resources, time and effort to challenge the finance function within the Government, but we are still a long way from truly understanding what the baseline figures are and what the time-series data are for individual projects and programmes. We want to understand the key, headline, strategic directions, but they are the aggregation of a number of small projects, all of which make up the big, strategic programme. If we do not understand how some of those small projects have been changed or stopped, we will be unable to challenge things effectively at the strategic level.

We need a resource at the centre that is more than just part time. If we dip in and dip out, it takes a long time to get back up the learning curve. The resource does not have to be significant, but it must be more than part time and it must be fully focused on budget issues. That will allow the continued function at the strategic level to have serious meaning.

**Alex Brazier:** At Westminster, as was mentioned, there is a clear distinction between the scrutiny of forward expenditure and the scrutiny of

past expenditure. The ex post scrutiny of expenditure is very good compared with the forward scrutiny of expenditure. It fares well compared with the scrutiny in many other countries because people—in particular, MPs—believe that they can make a difference by looking back to see how expenditure turned out in practice. That is crucial in relation to the incentives to do such work and the reasons why people want to do it. The chances of getting anything changed on future plans and budgets are weak, so why would people spend a lot of time trying to do that? A culture has developed whereby, if people want to make a splash with financial scrutiny, they focus on the area in which they are more likely to have an impact.

What are the incentives to do budget scrutiny? People have to consider what they want to achieve in the first place. At Westminster, we proposed that there should be a culture of explanation by the Government. Even if there were no changes to the budget or future plans, there would be a much greater emphasis on the Government's having to explain why it made the choices that it made rather than other ones. For example, it would have to explain why allocations had gone up or down. If it did so, the MPs who do the work would at least get something to put into the public domain and would make a splash. There would be an incentive for them to prioritise the work. That distinction runs through a lot of ex post and ex ante work on expenditure.

The resources side is crucial. Many MPs told us, off the record, that often they do not understand anything that happens with financial scrutiny. Of course, they need expertise and staff support, because they are not meant to be there as technicians. The House of Commons now has a scrutiny unit of about 20 people who analyse the estimates and help to move towards better scrutiny. We went much further and called for a parliamentary finance office, which would be a bit like the National Audit Office but for the Parliament alone. It would allow MPs and their staff—and peers, to a certain extent—with an interest in scrutiny to strengthen their knowledge and their ability to hold the Government to account.

**The Convener:** I can see the distinction between forward spend and past spend. The scrutiny of past spend is audit. The trouble with forward spend is that it is a moving target and it changes in time. The fundamental question is whether the resources that are allocated in budgets match up to the tasks that have been set, as opposed to whether targets were met with the money that has been spent and whether it was spent efficiently. There are different targets in there. How do you sort that out?

**Professor McLean:** The United Kingdom Government has moved a certain distance with the institution of the spending review. The spending review is now well embedded and likely to be continued by Governments of any party. However, from the point of view of democratic accountability, a huge drawback is that the spending review lies entirely within Government business. It still involves—and I think that it always has involved—bilateral meetings between the Treasury and the spending departments, at which the Treasury tells the departments what their limits are.

As I say in my written evidence, your current link to the Treasury means that the starting number for your spending review is a given, over which you have no control. However, it would be good if the Scottish Parliament could combine the good aspects of the Westminster system with a means of interrogating the DEL—to use the jargon—so as to discover whether the right sums of money are being spent on the programmes that the money is supposed to cover.

As I have often said, you would need to know how departmental expenditure limits are derived for English spending departments under the present regime, and this Parliament has no way of finding that out—and neither does any of us. That is a huge difficulty and a substantial problem.

**The Convener:** You are leading us down complex paths.

**Alex Neil (Central Scotland) (SNP):** It would be helpful for the committee if Mr Brazier could circulate notes on the scrutiny unit and the proposal for a parliamentary finance office at Westminster.

I want to raise a more general issue. Any recommendations from the committee on the budget process should be for the medium term and the long term—not just for the short term. Our recommendations will have to be robust enough not only to achieve our current scrutiny objectives, but to cater for a time when the Parliament might have taxation powers and borrowing powers, which will depend on what, if any, additional powers are allocated to the Parliament over the next few years. The witnesses have spoken about the budget review process. Is the current process robust enough to handle scrutiny of the borrowing and revenue raising side of the equation, as well as the spending side of the equation? At the moment, we are only a spending Parliament; we do not tax and we do not borrow. If we were a real Parliament—in the sense of having those powers—the committee would be scrutinising both sides of the equation, rather than just one side of it. What would be the implications for the scrutiny process of the Parliament having taxing and borrowing powers?

**Professor Lapsley:** That is an excellent question. Before I answer it, I will go back a stage. As other witnesses have suggested, the current system is complex. The addition of borrowing powers and tax-raising powers would put us on to a different level. At present, issues arise over the nature of the information that we act on, and people find those issues abstract and difficult. We have to ask how we can make Government accounts more accessible to everyone. That is a real problem, and it is one that exercises minds in the Treasury at the moment.

In Scotland, a new system of accounting was put in place seven years ago, replacing a system that had survived since 1866. The new system is not simpler: in some ways it is more complex, denser and more impenetrable, so a case exists for examining how the reformed system is functioning.

To answer Mr Neil's question, I think that the present scrutiny systems could stack up, but I understand why people might want additional resources if there were a different kind of Parliament with borrowing and tax-raising powers.

**The Convener:** Can you give us examples of accounts that are accessible in the way that you would like them to be?

14:45

**Professor Lapsley:** We face the problem that accounts are determined by the Treasury, which has the most powerful voice in the land. If accounts are to change, the Treasury must be interested in changing them. It has some inclination to move in that direction.

The Scandinavian countries have simpler forms of accounting that use performance metrics and cash-based information. I suspect that some people intuitively find it easier to understand the former Westminster cash-based accounting system because it is quite hard to make sense of volume statistics, financials and activity levels. The current system was supposed to make it easier to track what different departments have achieved against their objectives, which would have been a boon to parliamentarians who are seeking to target information, but that is not happening. It is a challenge to increase accessibility, but it is important to nudge the system in that direction and to have a say in what happens.

**Professor McLean:** I agree absolutely. In my written evidence, I say that grown-up budgeting must involve the revenue side as well as the expenditure side. The first principle of fiscal federalism is that a decision to spend a marginal pound implies a decision to tax a marginal pound. Similarly, reducing spending implies reducing taxation.

A fully mature budget process is possible only if the Parliament has more fiscal autonomy and/or borrowing powers and/or complete independence. Mr Neil asked what resources would be needed for scrutiny in that context. Like other witnesses, I think that the Parliament is doing fairly well.

In my written evidence, however, I mention the fact that the publication of "Government Expenditure and Revenue in Scotland" has been delayed by six months; the last time I checked—at the end of last week—it had still not appeared. A press release last November indicated that the document's publication had been delayed in response to representations that were made by the Finance Committee a year and a half ago and that two years' worth of information would be published at once. If we are to have grown-up budgeting, GERS—or a document like it—should continue to be published. GERS should retain its status as national statistics—with a capital N and a capital S—because that guarantees its production by professionals and its immunity from partisan interference.

Assuming that Scotland remains in the UK, the numbers must interlock, as they do at present, with the budget red book on the revenue side—so that the Scottish Parliament and the UK Government are saying the same thing about the yield of each tax—and, on the expenditure side, with the "Public Expenditure Statistical Analyses" database, about which I could speak at greater length than the committee would probably like.

**Alex Brazier:** Accessibility is dependent on the system that is implemented. At Westminster, much scrutiny of tax raising is carried out by the Treasury Select Committee, which takes evidence on various matters and considers the pre-budget report, which is now a fixture on the Westminster scene. Much of what the Chancellor of the Exchequer intends to say in the budget appears three or four months beforehand: budget secrecy has often gone, which gives the Treasury Select Committee the chance to carry out serious scrutiny before the budget.

In our study, we recommended that there should be a separate taxation committee, although so far that recommendation has not got anywhere. Everybody we spoke to said that taxation exercises people above all other subjects, so we took the view that, rather than its being one strand of the Treasury Committee's work, which involves scrutiny of macroeconomics and public spending balances along with everything else, there should be a separate taxation committee to consider proposals for raising tax, how taxes interact with one another or, at least, to consider tax administration, which can be complex. Often, that sort of detailed work is not done, so we suggested that tax should have a separate committee.

**Jo Armstrong:** The resources that would be required if tax raising and borrowing were added to the devolved powers would primarily depend on how those matters were dealt with in the Scottish Government's central finance resource function. No department in the Scottish Government performs the challenge function that the Treasury performs within Whitehall. One would hope that, if revenue-raising and borrowing capacity were added, a challenge function would be established to ask why it was necessary to raise taxes to fund a programme and why funds from other areas were not being reallocated for it. To some extent, the resources that the committee would need would depend on whether that existed.

My second point is about the information that members have on revenue and expenditure through GERS. It has been delayed, although it is, I believe, coming out next week. There is a lot of uncertainty about what revenues we generate in Scotland. For us to have the capacity to raise revenues and to have borrowing powers, we need far greater understanding of what we can raise within Scotland and to what extent the data on the Scottish economy provide an adequate understanding of what the impact would be of changing the tax base in Scotland. A lot of work would need to be done behind the scenes to enable us to understand what the Scottish economy is, what revenues we raise and what the economic impact of changing the tax rates or bases would be.

**The Convener:** Indeed. We must concentrate on what is practical and within our powers and—we hope—improve things.

**Liam McArthur (Orkney) (LD):** Jo Armstrong mentioned that some of the baseline statistics are impenetrable, and there are sometimes apparent discrepancies in some of the figures with which we are presented. However, as we heard in evidence last week, it is often difficult to interpret the policy intentions behind commitments, and it is difficult to establish in the budget process what the precise outcomes are that we are trying to match with budgetary resources. It would be helpful to know whether any additional resources that Parliament could deploy would ever be able to cut through that problem and whether other Parliaments are more successful in getting to the bottom of policy intention than we have been until now.

**Jo Armstrong:** A lot of information that currently exists would help to reduce the lack of clarity, for example the level 4 data, which are what ministers see and civil servants work towards. If nothing else, it would be worth making those data available in order to increase transparency and to reduce the belief that budgets were being cut or that changes are not justified. It has been stated that that would make the budget documents much

more unwieldy and much more difficult to deal with, but in these days of information technology systems, it is not difficult to make such information available. If it were to be made available, it would be incumbent on the people who scrutinise it to say whether budgets had been cut or increased. It would be easy to follow through on that. Making the data available would not require significantly more work on the Government's side because the information already exists.

**The Convener:** What, given the concordat, is the role of scrutiny in respect of local government?

**Professor Lapsley:** That is properly a matter for the Local Government and Communities Committee, which looks after local government.

**The Convener:** Local government is a major budget item.

**Professor Lapsley:** Indeed. Local government is a devolved major budget item, and local authorities have struck an historic agreement on council taxes and the release from ring fencing, so there is an issue. I suggest that the natural place for that to fall would be during ex post scrutiny of how the arrangements work out in process. Will councils actually deliver on outcomes for the moneys that they receive and the additional flexibility that they have? That would be an obvious way for scrutiny to proceed.

**The Convener:** Do you want to comment on that, Professor McLean?

**Professor McLean:** I have nothing to add to that.

**Jo Armstrong:** Local government is quite a large chunk of the Scottish budget and it is important in terms of delivery of some economic targets. The Finance Committee must perform some scrutiny of the single outcome agreements—of how the 32 different versions are going to aggregate up to the delivery of the aggregate economic targets that the Government has set itself. I recognise the need—the wish—either to devolve responsibility to another committee or to allow scrutiny to be carried out through local government's own Accounts Commission reviews. However, it is important that a third of the budget for the delivery of economic targets be scrutinised at this level.

**James Kelly (Glasgow Rutherglen) (Lab):** Earlier, Jo Armstrong spoke about the importance of having a strategy, about how the allocation of funding should tie in with that strategy and about how that could be checked. Taking a wee step back from that process, looking at the longer-term planning of the budget and how that strategy could be brought together, what measures could be taken that would better inform the process of setting policy priorities to define the strategy?

**Jo Armstrong:** I am just trying to think it through. The strategy was announced by the Government. The concept of producing a strategy is ideal. The production of targets within it is, equally, to be lauded. However, the problem that we in the CPPR have with it is that it is not clear what the links are between the priorities and the spend—between the targets and what is required to achieve them. For example, subject to the downturn not being so dramatic that it effectively renders all forecasts null and void, we will need a step change in the economy to deliver the growth target that has been set. The growth target is eminently laudable and we should aim to achieve it, but it is not clear how it is going to be delivered from the Government's end, through its spending plans. That information must exist within the Government, and it would be useful—necessary, even—for it to be produced and for delivery to be monitored regularly. Whether that would happen annually or triennially would depend on the nature of the targets.

If we do not have a clear understanding of how the budget priorities are linked into the economic strategy, incrementalism will exist and those who shout with the loudest voice will get the funding. It is not clear that that will deliver the strategy that has been set out.

I do not know whether that answers your question.

**Alex Brazier:** When we considered how Parliament and its committees could make more of an impact by pursuing inquiries, trying to balance out the different competing demands, and so on, we always came back to the fact that it is about trying to take politics out of what are essentially political decisions about how money is going to be spent. Trying to pursue dispassionate and high-minded scrutiny of decisions about what money should be spent on what might sometimes end up crashing two different disciplines together. Sometimes, a committee will be able to find consensus on an issue or conduct an inquiry that concludes that something is a pressing need, but at other times it might run up against entirely political considerations, with different parties wanting to do entirely different things with the money that the Government has to spend. That is the balance that must be struck.

**Professor Lapsley:** The process of setting high-level strategies and intermediate targets and relating them to expenditure outcomes is imperfect. It is not a neat, linear process or mechanical, by any means. It involves a huge amount of political judgment, which is necessary in a democratic society, and decisions about strategic priorities that are, rightly, aspirational. That might not connect easily with underlying targets and expenditure.

In my submission, I described three types of budgetary process. What I am talking about at the moment fits the first one, and is what you might expect to find in a commercial organisation. However, we are dealing with something that is much more complicated than a commercial organisation.

As I said, there is a great need for judgment and expertise, and I take Mr Brazier's point about the need for that political voice to set priorities and outcomes in relation to the budget. I do not agree that the elements are neatly articulated. That is not what we are faced with.

15:00

**The Convener:** That is a useful reminder of the complexity of what we are dealing with. I remember that the planning, programming and budgeting system and zero-based budgeting were meant to take the politics out of everything. Evidently, that did not work.

**Professor McLean:** At the United Kingdom level, the growth intentions of the Government are monitored. Rather ostentatiously, with each pre-budget report, the Treasury includes a document from the National Audit Office on the realism of the financial projections, since the projection for growth determines the projection for future tax revenue, which in turn determines how much you can spend. I leave it to others to judge whether the inclusion of that document makes the Treasury's forecasts more credible than they would otherwise be.

**The Convener:** In a sense, the UK is an open system, whereas devolved Scotland is a closed system. I would think that, in a closed system, we should be able to get to the heart of budgeting and follow changes through the budget process. The fact that we have a finite budget should make it easier to get the challenge function going.

**Professor McLean:** It is not an entirely closed system, since, presumably, you have to make projections about tax receipts from those taxes that the Scottish Parliament ultimately controls. However, I concede that it is much more closed than the UK's system.

**Professor Lapsley:** We should look beyond the financial terms and bear in mind the impact of service quality on citizens, as we mentioned earlier. In those terms, the idea that we have a closed system in which it is relatively easy to monitor those impacts is wrong—it is difficult to do so. Budgetary interventions might not achieve what you want them to. We should not think that the fact that we have precise numbers before us means that we are dealing with a precise and mechanical process. The reality is much more subtle and complex than that.

**Jo Armstrong:** I agree that the process is not linear and that it is much more complex than any of us can imagine. However, there is merit in those who are seeking to spend public funds indicating what they think the outcome is likely to be and what they are aiming to achieve, so that that can be monitored. It is difficult to say exactly what is going to happen, but, if you spend money, you should be able to say what you hope to achieve. If things go awry because of factors that are outwith your control, that is a legitimate reason for not achieving your aim. However, it would be wrong to say, "We can't measure and monitor the system, so don't ask us to." We can ask for a justification for the allocation of funding and then monitor it.

**Alex Brazier:** I agree. We push quite strongly the adoption of a culture of explanation and justification.

**Professor Lapsley:** Everyone is in favour of transparency—that is beyond challenge—but we must understand what underlies the transparency.

**The Convener:** Getting transparency can be difficult.

I invite our panel members to make any comments that they wish to make to sum up the discussion.

**Professor Lapsley:** The one point that I will make is that although it is entirely fitting and appropriate that the Finance Committee challenges the Government's budget, it is important that the challenge does not consist only of those two parties coming together. If the budget review is viewed by other members of the Parliament as an abstract, oblique and strange dialogue that is going on between committee members and colleagues in the Scottish Government, we are failing.

There is a real need to widen participation in challenging the budget. We know that public finances are difficult to understand, and that widening the debate is not easy, but it is important to do so. If it becomes purely a dialogue between the committee and the Scottish Government, that would be a disappointment for the Parliament.

**Professor McLean:** I would like to illustrate the opacity of the present regime. As I have said, and as members well know, Scottish Government DEL is a function of what is spent in England on functions that are comparable to those that are devolved to this Parliament, yet nobody has an opportunity to challenge the decisions—some of which involve billions of pounds—that lead to that.

I will leave the committee with an example with which some of you will be familiar. In what I call the Treasury operations manual, "Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of

Funding Policy”, a lot of the meat is at the end of the document, in what is called the “Schedule of comparable programme objects”, which used to be called sub-programmes. If you delve deep into that—as some of you, or your researchers, probably already have—you will find huge political decisions that have been taken unilaterally by HM Treasury.

The one to which I draw attention, which has appeared in the media, is under the “Transport” heading. The London & Continental Railways spending—the Channel tunnel rail link—is scored to have no Barnett consequential, so no funds come to the three devolved Administrations in respect of it. However, the Jubilee line extension, funding for which is £1.2 billion in 2007-08, is scored to have a Barnett consequential. Putting it crudely, you can have Edinburgh trams on the back of the Jubilee line extension but not on the back of the Channel tunnel rail link. That seems pretty arbitrary, and if I were in your seats, I would want to be in a position to interrogate it.

**The Convener:** I thank all our panel members. You have brought home to us the reality that our deliberations in this committee have an effect on the real world, and that we all have a responsibility to the public, whom the Parliament serves. I thank you for your insights and your suggestions, which are appreciated and will be of assistance to the committee. We will take a short break to allow our panellists to leave.

15:08

*Meeting suspended.*

15:09

*On resuming—*

## **Decision on Taking Business in Private**

**The Convener:** The final agenda item is to decide whether to consider our work programme in private at our meeting next week. I propose that we take that item in private. Are members agreed?

**Members** *indicated agreement.*

**The Convener:** I close the meeting, and thank all members for their participation.

*Meeting closed at 15:10.*





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