

Budget Process Review Group:

Interim Report Consultation Questions

This is a joint submission from SOLACE Scotland and CIPFA Scottish Directors of Finance Section

SOLACE Scotland is the Scottish Branch of the Society of Local Authority Chief Executives and Senior Managers (UK), and is the representative body for senior managers working within local government. The Society's members are drawn from a variety of backgrounds, and while engaging with all major players in Scottish governance at both local and national level, SOLACE Scotland has a unique role to play in offering a corporate view of local government.

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

The CIPFA Scottish Directors of Finance Section represents the senior finance practitioners in all 32 Councils.

As such our response is principally based on the experience of senior professionals from a local government viewpoint.

Theme 1: How effective is the existing budget process?

Principles Based Approach

1. What adjustments do you consider are required to the existing FIAG principles to support a world class financial scrutiny process for Scotland in 2017?

Our response is based on the principles listed by the Group

- ***Provide opportunities for the Parliament to comment on expenditure priorities and to influence the Executive's preparation of Budgets***

The Government's Budget isn't public until published. Parliamentary privilege may be cited, with negotiations taking place "behind the scenes". Increased opportunity would require sharing of information with all MSPs in advance of publication or a

longer consultation period. In local government parties out with the Administration sometimes prepare their own budgets (with support from officers).

In the last couple of years debate has emerged about the interpretation of the budget, and the same sets of data have been presented, and interpreted, in different ways. Transparency required a shared understanding of what the budget means and a consistent form of presentation.

- **Provide the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process**

Not proactively pursued under current arrangements. This is at odds with community empowerment legislation. The timing and transparency of the budget information, which is often not easy to understand, does not facilitate achievement of this.

- **Provide sufficient time for the Parliament to consider and debate proposals fully**

Based on the draft report the number of days available for debate varies between 21 and 62 days. The information **does not** link to financial performance and delivery of outcomes, limiting consideration and debate on the proposals.

- **Provide balance between the requirement for parliamentary scrutiny and the needs of the Executive**

Linked to the above point we do not believe that there is sufficient time for parliamentary scrutiny. Without clarity about defined outcomes, the focus of debate tends to be around funding levels per sector i.e. input focussed based on allocations of funding.

- **Provide some degree of certainty so that on-going activities can continue without prolonged uncertainty**

There is no visibility of the medium and long term financial plans of the Scottish Government, creating uncertainty and potentially resulting in sub optimal outcomes. Sectors cannot make detailed long term plans themselves with a reliance of one-year grant allocations.

In addition, finalising of budget allocations only takes place a few weeks before the start of the financial year, which again impacts on financial planning and can result in short term decisions being taken.

- **Provide an effective mechanism to deliver motions to be debated by the Parliament**

This could work if the budget setting process was effective. Many of the concerns expressed above would require to be addressed first, particularly the issue of outcomes focus and longer term planning.

- **Provide a meaningful role for subject committees and the Finance Committee**

The opportunities for the subject committees to influence the budget setting process are unclear. A more joined up approach could be progressed across portfolios with a clear picture of inter-dependencies.

To be effective, engagement would have to be at a much earlier stage in the budget process and look at clear outcomes and how to achieve these. Again this needs to be based on longer term plans.

A meaningful role cannot be achieved if the subject committee is only scrutinising budget proposals after the event.

- **Deliver timeous decisions on tax varying power and the Budget (as well as the interim spending approval and budget amendments)**

There is wide recognition that the budget setting process of the Scottish Government has become more complex as a result of the tax varying powers. All organisations find a way to manage uncertainty. The Scottish Government has the power to borrow for fluctuating revenues to smooth the impact of a variation between anticipated and actual income.

The Government therefore needs to recognise that risk will always exist around budget forecasting, but it should not use this as a reason and/or justification for one-year budgeting.

- **Engage all MSPs**

This point really relates to earlier comments that need a longer term approach and opportunity for dialogue before, rather than after, the publication of spending plans.

- **Facilitates the Executive's formulation of proposals**

Engagement with subject committees with a role in setting objectives and outcomes could support the formulation of proposals. Then formulation of policies should

reflect the Programme for Government with a clear line of sight to the Budget. Often new policies are added with no review of existing policies or a clear picture of how the new policies are funded. Additional spending, without a review of existing policies, will lead to spending pressures. In addition ring-fencing of resources and a focus on inputs, can be detrimental to the delivery of outcomes. Policy should drive the budget rather than the other way around, which traditionally appears to be the case.

- **Provides for the right of amendment**

This right is via stages 1-3 of the budget process.

A number of the remaining questions re Theme 1 have been addressed through feedback on the principles as noted above.

Full Year Approach

2. Should the Parliament pursue a full-year approach to budget scrutiny, and what are the challenges and opportunities of this approach?

Yes. A full cycle of financial performance and delivery of outcomes should be established. However to be fully effective the Budget should look at the term of government and adopt a multi-year approach. This would give the opportunity for subject committees to consider and influence the development of performance standards and outcomes, and help to influence spending decisions.

The challenge is a need to accept risk in financial forecasts, and to be prepared to move away from single year budgets. In doing so there is an opportunity to be more inclusive in assessing and determining priorities. The significant opportunity is to determine budget allocations based on outcomes and levels of performance, not on input measures (which the current process largely is).

This would allow the impact of ring-fencing of specific budgets to be considered alongside the net impact on other service budgets.

Public Engagement

3. How effective is current public engagement in the budget process and how can this be improved?

Current public engagement is reactive, not proactive. Clarity of information is important, and current information is not user friendly or easy to understand. Again it can be improved by more dialogue at an early stage and agreement over how information is to be presented, to ensure consistency.

4. What examples are there of good practice in delivering meaningful public engagement in budget scrutiny and/or the formulation of government spending proposals?

Choice at local level of national targets, rather than imposition of “one size fits all” would aid meaningful public engagement. There is evidence of practice in New Zealand – information on outcomes and cost and clarity of what was delivered. MSPs are democratically elected to represent their community; as such greater engagement at an earlier stage could help deliver this.

Whilst governments will argue that they are elected on the basis of their manifesto, there are clearly funding choices and service priorities over which the public has very little say at present.

5. What should be the purpose of public engagement on the Scottish Budget?

It should provide challenge around the delivery of the programme for Government and how this is financed, and how it can be prioritised.

Stage 2 (Draft Budget Scrutiny Phase)

6. What should be the core objectives of parliamentary scrutiny of the draft budget?

Core objectives should be around whether it delivers the Programme for Government; is it SMART; is it fully funded on a recurring basis; what are the implications for existing services?

7. How effective is the existing parliamentary scrutiny of the draft budget and how can it be improved?

Current scrutiny is reactive and tends to focus on the margins of the overall Budget. It could be improved through earlier announcements, a multi-year approach; and the establishment of performance outcome measures.

8. How does the new UK Autumn budget process affect the timing of the Draft Budget?

There appears to be a significant reliance on the announcement of the UK budget before delivering the Scottish Budget, yet figures are available (even in draft form) covering several financial years. The Scottish Government needs to develop proposals earlier and make provisional announcements to give public bodies sufficient time to prepare and respond.

The current timetable does not sufficiently allow sensible and timeous consideration of options. A lack of funding certainty until a few weeks before the start of a financial year is not conducive to good financial planning and management of scarce resources.

9. In what ways can the level of transparency of the draft budget and other budget documents be improved?

There is no detail about the assumptions and risk factors that the Scottish Government has made in preparing its budget. This is particularly critical if the Government continues to only announce a one year budget.

Knowledge of assumptions and risks are essential planning tools to enable public bodies to make assumptions about future years' funding in the absence of any certainty over funding from the Scottish Government.

Stage 3 (Budget Bill Phase)

10. How effective is the existing Budget Bill process and what, if any, changes are required?

From a Parliamentary scrutiny perspective it is currently geared to allow retrospective scrutiny of Budget and Funding proposals. The short timescale does not allow time for detailed scrutiny or debate, and is undertaken too late in the year.

This creates significant uncertainty and does not allow sufficient time for public bodies to make service provisions for the new financial year. The process is therefore geared for Parliamentary scrutiny, with little consideration given to the short timescale this leave public bodies to adjust, particularly as these bodies are the delivery mechanisms for Government policy.

Again, the main change needs to be multi-year budgets and even indicative grant announcements beyond one year.

11. Should the Parliament have the opportunity to lodge amendments to the Budget Bill or should non-Government amendments still only be proposed at the pre-legislative stage?

The major issue arises where significant late changes are made to the Budget Bill, and the impact this has on public bodies required to deliver services. As public bodies it is the lateness of notifications that can lead to short term decision making, rather than the source of the amendments per se.

So timing of the Budget Bill process is the issue.

12. If the former what, if any, should be the limits on the power of the Parliament to lodge amendments?

This is really a political decision and depends on the response to previous comments. Public bodies need greater certainty and longer term financial plans to deliver services effectively.

Theme 2: What is the impact of the Fiscal Framework?

13. What information should be provided, and when, to ensure full transparency of how the following elements of the Fiscal Framework operate:

- the adjustments to the block grant;
- the reconciliation process, including interim outturn information;
- borrowing powers;
- the Scotland Reserve.

14. How should parliamentary scrutiny of the following new aspects to the budget process operate:

- the adjustments to the block grant
- the reconciliation process, including interim outturn information
- borrowing powers
- the Scotland Reserve

For example, should these new aspects be carried out as part of the budget process, or as a separate scrutiny process focusing on the operation of the Fiscal Framework?

In responding to the above two questions we would make the following comments:-

There needs to be greater awareness and understanding of the operation of the fiscal framework. We would advocate the need for clarity over the bodies and organisations involved, and their roles and responsibilities.

We would recognise the main difficulties that the Scottish Government faces:-

- For each estimated tax, the impact on the block grant will need to be assessed
- Likely lag in tax receipt information will make financial forecasting difficult in year
- Annual volatility in tax receipts

- Lack of historical data

There needs to be consideration of the respective roles of the Scottish Government and public bodies. Whilst the above points are challenging, this makes the importance of adopting a longer horizon to financial planning. The Scottish Government has the powers to smooth budgets to public bodies and to manage risk at a Scotland-wide level.

These powers principally relate to borrowing to smooth the impact of tax receipts. However we would question whether a £600m limit is sufficient to manage fluctuations.

There is insufficient data around how the Fiscal framework operates in practice, and the ongoing impact of the Barnett formula on the Scottish Block Grant. There needs to be transparency and challenge over the level of block grant and the assumptions on tax revenues. Of particular importance is the question of economic growth, and how this factors into the formula for block grant, especially where growth and tax receipts will vary across the UK and the wider UK economy.

What needs clarification is how the performance of the Scottish economy versus the UK economic impacts on block grant funding and the wider Scottish Budget. There is also a need to ensure that Scottish Government economic assumptions are consistent with UK Government assumptions, or where this is not the case, then there is clarity as to the reasons why.

Agreement and testing of assumptions, including business rates will be essential. We would advocate the need for “independent scrutiny” of financial assumptions, such as the Office of Budget Responsibility (OBR) at a UK level. However the main point we would make is around clarity and understanding of the assumptions, as we see this as being key to longer term financial planning.

Whilst recognising risk, analysis of the range of uncertainty, and scale would certainly assist long term projections at an individual public body level. However we would see risk as being managed at a Scottish Government level, and multi-year indicative funding allocations as essential to long term financial planning for public bodies.

As highlighted previously, an annual Budget Announcement in November/December does not provide sufficient time for scrutiny and challenge if viewed solely on a one-year basis. There needs to be a cycle of long term financial planning where assumptions can be considered and subsequently reviewed. The current process of single years in not adequate with information available too late, and rushed.

The impact of the current model effectively de-risks the position from the perspective of the Scottish Government as announcements are delayed until the UK Budget is announced, and then only a one-year position is currently adopted. However for public bodies, as delivery partners with the Scottish Government, this is not adequate nor can it guarantee an effective use of resources.

Theme 3: How effective is the current approach to Multi-Year Budgeting?

The recent frequency of political events, such as elections/referenda at a UK, Scotland and local government level, appear to have shortened the financial planning horizon of the Scottish Budget process and multi-year budgeting seems to have been de-emphasised.

So the current approach of one-year budgeting does not provide sufficient certainty to enable the future planning of services, or to enable longer term financial decisions and investment to be taken.

15. What should be the core objectives of Scottish Government Spending Reviews, how often should they be carried out and when?

We would advocate that the Scottish Government adopts the same practice as the UK Government of a 5 year plan for the life of the Parliament to support effective decision making, including capital investment and preventative investment. Ideally a broader 10 year plan – current Parliament plus 1, reviewed on a rolling three year basis, would further assist with this process.

The Scottish Government needs to acknowledge that financial models can change, and be prepared to change its assumptions and political priorities as time progresses.

A preventative approach needs a longer term service, and therefore a longer term financial and strategic approach given the timescales for outcomes to be realised.

16. What level of information should the Scottish Government publish?

Information should be published well in advance in order to challenge assumptions and outcomes, and it should provide a clear link to the Scottish Government's manifesto. At present, whilst expenditure commitments are visible it is not clear how these are to be funded. There needs to be a much greater clarity to enable a cross public sector view to be taken, and better alignment of plans e.g. local authority and NHS.

The identification of funding should also include planning for, and notification of, disinvestment of existing funding streams to allow for the financing of new policies or achieving transformation.

17. What should be the role of the parliament's committees in scrutinising Spending Reviews?

This should be an ongoing role as Parliamentary Committees have a unique opportunity to challenge Government policy and funding allocations. However, to be effective, the opportunities have to be available on a multi-year basis with sufficient time allocated. Effective scrutiny cannot happen over a short period of time after the Scottish Government's budget proposals are announced.

Theme 4: How effective is the current approach to Medium-Term Financial Planning?

18. Should the Scottish Government publish a medium term financial strategy for parliamentary and wider public scrutiny?

Yes. As stated above the current manifesto and Programme for Government set out expenditure proposals, but without funding allocations or (in particular) details of how these proposals are to be funded.

19. If so, what should it include, what should be the role of the SFC in its preparation and how frequently should it be updated?

In answering this question we have included some current observations:-

Current Position

- Some policy aims are clear in the medium term (for the duration of the Parliament) e.g. 1140 hours for Early Years, £500m above inflation on Health, no increase in income tax. However funding sources for new initiatives are not clearly identified in the manifesto/Programme for Government.
- Identification of funding sources for new initiatives is essential because of the impact on existing funding streams, and the potential of funding reductions in these areas.
- UK Government has provided "high level" figures to 2012/22 so Scottish Government could do likewise
- Recent years have seen one year settlements with an increase in prescription/ring fencing. This is creating significant challenges in forward planning existing services

- Councils/Health Boards have developed short term measures to cope with the current position, including use of reserves, which mask the problems partly caused by the lack of Scottish Government medium term financial planning.

Questions/Challenges

- Does the expertise/capacity exist to develop fiscal modelling
- There appears to be a lack of Scottish data for some of the key figures
- Unprecedented uncertainty caused by Brexit and the potential for a second Scottish Independence referendum
- There may be a risk that the current flexibilities in the financial management framework may be insufficient to manage volatilities relating to the block grant and taxation income elements of the budget
- New “unknowns” being transferred from Westminster e.g. social security, all adds to the risk profile
- Robustness of core sectoral demand data both in quantum but also unit rates
- Adversarial politics mitigates against medium term plans being consulted upon
- Unlikely to be any appetite for highlighting any funding gap before an Independence Referendum

Conclusion

- There is no technical reason why the Scottish Government cannot publish medium term financial plans. The Accounts Commission are consistent in expecting local authorities, who also have little direct control over the majority of their funding, to undertake medium and long term financial planning in addressing the uncertainties they face
- New powers allow smoothing of under/over budgeting but there needs to be a culture change to understand that a “balanced budget” period doesn’t have to be a single financial year
- Any medium term plan needs reviewed annually and should include optimistic/average/pessimistic scenarios around:-
 - Economic forecasts
 - UK resources devolved
 - Income raising proposals
 - Split over core sectors and revenue/capital
 - Performance over the period not just years in isolation

Theme 5: How effective is the current approach to outcomes-based scrutiny?

20. How effective is the emphasis on prioritisation and value for money in delivering a more outcome-based approach and how could it be improved?

- Protection for some services is often input based rather than outcome focussed e.g. maintaining police and teacher numbers
- Input targets (whether in £ or in resource count e.g. headcount) are easy to measure but do not necessarily support an outcomes based focus nor ensure best value from public funds. A better link between funding/resources and outcomes is desirable
- The link between budget line(s) or other budget documents and the key outcomes is not always clear
- Definition of outcome is not always clear and therefore how it is to be assessed e.g. education attainment
- Excessive ring fencing of funding is not helpful since it reduces the flexibility that is available to address/support outcomes achievement for a locality between different client/service user groups or locality needs
- The relative accountability and responsibility split between the Scottish Government and local government is a challenge:-
 - The extent to which local government is a vehicle for delivering Scottish Government policy, compared to being democratically accountable in its own right to its own electorate, is a consideration
 - Within the Scottish Government itself there may potentially be some differences between national and local priorities, and differing interpretations of national priorities between departments
 - Ultimately the funding is all public (taxpayer) money and accountability for its stewardship, use, and achievement of outcomes should be ensured. A “golden thread” from national to local priorities and outcomes is required
 - Good governance is a key requirement for ensuring that taxpayer funds achieve the best outcomes for citizens. This will presumably apply at Scottish Government, Scottish Parliament, organisational and sub-unit (e.g. school) level.

21. What should be the role of public bodies in supporting a more outcomes-based approach to financial scrutiny?

- Clear outcomes based on evidence linked to funding
 - A key challenge should be ‘what evidence exists to show that this intervention provides the outcomes sought?’
 - A pragmatic approach to implementing this would be to apply it to new policies on a prospective basis
 - More transparency over the cost and funding allowed for new policy initiatives and legislation in the Scottish Budget would be beneficial, especially since these can (if not fully funded) act as effective ring fencing of existing funding

- This would also assist in scrutinising the cost/benefits of new policies and legislation implementation
- Need to recognise the time lag between funding and delivery of outcomes – ties in with medium/long term financial planning
 - For example, capital investment over some years may be required before services even commence and outcomes can have a significant further time lag after that
 - For example, funding finalisation in February for possible implementation from 1 April is challenging, especially since this is unlikely to provide sufficient time for proper scrutiny and challenge of subsequent budget proposals or changes by locally elected members who are responsible for representing their electorate
 - For example, implementation of education changes may be dependent on the start of the school year, not the financial year
 - On this basis, a ‘one-year’ budget approach is not supportive of long-term outcomes or transformation
- An outcomes based approach to public services requires a combined long-term service and financial strategy. The strategies should recognise and allow for the implications of, and any restrictions to, taking on fixed costs or long-term commitments
 - For example, expanding services which involve staff recruitment can be difficult if funding is not certain (e.g. only temporary or fixed term posts are advertised, and evidence suggests that these don’t attract as many potential applicants). The alternative of offering permanent posts can leave organisations exposed to higher exit or disinvestment costs when/if funding for the initiative ceases or general funding is reduced
 - This implies that “exit plans” or a “whole life costing” approach might be suggested for new policies in future. As indicated earlier (Question 1) a clear horizon for post implementation scrutiny to assess the success of any initiative may also be beneficial
- Balance required between national and local priorities
- Political consensus is critical
- National Performance Framework could be used more
 - Best Value Audit process should support across all public sector
 - Audit Scotland role in performance and outcomes evaluation
 - The reports on roads maintenance was a good example comparing spend against performance of different councils and highlighting apparent variations
 - Much stronger linkage between funding and outcomes is desirable
- Scottish Government – incremental budgeting
 - Tends to focus on marginal increases/decreases rather than expose the majority of existing/base funding to scrutiny to ensure that the whole funding package is supporting outcomes and Best Value

- Can the Scottish Government link the (whole) budget to the policy framework?
- Electoral cycle can be a barrier to longer term planning (see Question 3)
- Transparency over cash and real funding changes is required
 - The financial frameworks for central government (RDEL, CDEL, AME etc) and for local government (statutory adjustments) may require consideration in parliamentary scrutiny to assess the impact of budget decisions
 - Consistent and unbiased presentation of funding support for organisations, for example year on year comparisons, is desirable to avoid confusion. Comparison to current year's final budget may be preferable to comparison against the current year's initial draft budget proposals
- Accountability
 - NHS and Other Central Government bodies:-
 - It should be recognised that the financial control framework should support longer term financial planning and flexibility for all organisations, including central government bodies
 - Central Government, perhaps by its nature, tends to have a high centrally controlled accountability framework
 - Generally central government bodies have limited ability to hold reserves, which could provide flexibility to support forward financial planning (e.g. to absorb unexpected cost pressures or upfront investment in longer term transformation programmes)
 - Therefore, particularly for the NHS, a more flexible framework, for example more ability to hold reserves and/or carry forward balances, could support longer term financial management

Performance and Reporting

22. What information should the Scottish Government provide in its budget documents to show how the links between its budget allocations and the NPF?

This has been covered largely in previous answers, but the main issue to provide clear outcomes and justifications for the funding allocated against specific expenditure heads.

The Scottish Government should also provide evidence that supports the links between investment and outcomes. The budget document should also indicate timescales over which improvement, deliverables, and outcomes are expected to be achieved, and how these will be measured.

On the back of this clarity, then the Budget should cover more than one financial year.

23. What level of performance information should Scotland's public bodies publish against the National Performance Framework?

There is a balance to be struck between volume and quality of data, but if the information suggested in the answer to Question 22 is established in the Budget Document, then it is this list of outcomes that public bodies should be monitored against.

24. What should be the role of parliament in scrutinising the performance of Scotland's public bodies in delivering outcomes?

Parliament should have a really important role in scrutinising performance. However proper scrutiny can only take place if building blocks are established. The key elements are:-

- Multi-year budget
- Proposals published well in advance
- Clear list of evidenced outcomes and how these link to funding allocations
- Clarity of assumptions used to develop the budget proposals

Public Audit

25. In what ways can the work of Audit Scotland be used more effectively in supporting a more outcomes based approach to financial scrutiny within the Parliament?

Again the work of Audit Scotland can be used more effectively if the above building blocks are in place. Audit Scotland's unique position in overseeing the public sector can help to ensure the sharing of good practice. A key element of this is the Best Value audit work.

Audit Scotland publishes a lot of performance data, but the reader is left to analyse the data themselves. Audit Scotland could be more challenging in assessing how performance data is used to achieve better outcomes by analysing reasons for poor performance.

If the Scottish Budget provides clarity of expected outcomes, then Audit Scotland is well placed to review how outcomes are being delivered. The role of the Accounts Commission for local government is also an important element of a move towards an outcomes based and best value approach to the delivery of services.

