

## **National Assembly for Wales**

### **Budget Scrutiny in the UK Administrations Research Paper**

October 2009

This paper provides background information on the different systems and structures of financial scrutiny in the UK Parliament and in the devolved administrations of Wales, Scotland and Northern Ireland. It also provides a comparison of the budget scrutiny systems and powers of legislatures of the devolved administrations.

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Enquiry no: 09/2757

## **National Assembly for Wales**

### **Budget Scrutiny in the UK Administrations Research Paper**

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October 2009

Paper Number: 09/032

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## **Executive Summary**

This paper is intended to provide a detailed overview of budget scrutiny processes in different legislatures in the UK and makes comparisons of how the approach to scrutiny differs in the each of the devolved administrations.

The responsibility for overall fiscal and macroeconomic policy and the allocation of public expenditure across the UK lies with HM Treasury. Following devolution in Wales, Scotland and Northern Ireland, funding for the devolved administrations has continued to be determined within the context of the UK spending reviews.

The allocation of public expenditure across the services under the control of the devolved administrations is at their own discretion, within the totals assigned to them.

This paper provides background information on the systems and structures of financial scrutiny in the devolved administrations and the UK Parliament, and provides a comparison of the budget scrutiny systems of the legislatures of the devolved administrations.

Chapter 1 sets out how funds are allocated from Westminster to the devolved administrations.

Chapter 2 describes in detail the financial scrutiny process in Westminster.

Chapters 3 to 5 look at budget scrutiny in Wales, Scotland and Northern Ireland.

Chapter 6 compares and summarises the processes in the devolved administrations.

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# Budget Scrutiny in the UK Administrations

## 1. Funding the devolved administrations

The responsibility for fiscal policy, macroeconomic policy and the allocation of public expenditure across the UK lies with HM Treasury. Thus, the budgets for the devolved administrations are set within the framework of public expenditure control in the UK. Once overall budgets are decided, the devolved administrations have the freedom to allocate spending within these limits. However, they must ensure that their plans comply with the UK Government's fiscal policy.

The Statement of Funding Policy<sup>1</sup> published by HM Treasury states that:

The devolved administrations, while assuming responsibility for many of the functions of the departments which they inherited, are not themselves departments of the United Kingdom Government. Their funding arrangements are the subject of detailed scrutiny by the elected Members and those whom they represent. It is important, therefore, that the way in which the budget of each of the devolved administrations is determined should be clear, unambiguous and capable of examination and analysis by the devolved Parliament and Assemblies and the United Kingdom Parliament.

Funding for the devolved administrations is determined alongside that for the UK Government departments as part of spending reviews. The UK Parliament votes the necessary provision to the Secretary of State; payments are then made to the devolved administrations in accordance with each devolution Act.<sup>2</sup>

The devolved administration's budget is not exclusively funded by grant from the UK Parliament. Further resources are raised through local taxation (including non-domestic rates, council tax and potentially the Scottish Variable Rate) and through borrowing by local authorities and other public bodies to finance their capital spending. As with UK Government departments, European Structural Fund expenditure falls within the devolved administrations allocation.

The total budget for the devolved administrations is comprised of the following two separate categories of expenditure.

- **Departmental Expenditure Limits (DEL)** – normally set over three years as part of the UK Government's spending review process. Most of the DEL is unhypothecated and allows the devolved administration full discretion over its spending priorities (known as 'assigned budget' items). Changes in the provision for these items are determined through the Barnett formula. Some elements of DEL are ring-fenced ('non-assigned budget') and can be used only for specified purposes.
- **Annually Managed Expenditure (AME)** – covers items whose provision cannot be reasonably subject to firm multi-year limits (such as social security benefits

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<sup>1</sup> [HM Treasury. Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy \(October 2007\)](#). [at 21 October 2009]

<sup>22</sup> [Part 5 of the Government of Wales Act 2006](#) established the Welsh Consolidated Fund (WCF) into which the block grant from the Secretary of State is paid. [at 21 October 2009]

or Common Agricultural Policy payments) and thus is reviewed and set annually. Further AME can be drawn down from HM Treasury if it is required, while any unspent portion will be reclaimed by HM Treasury.

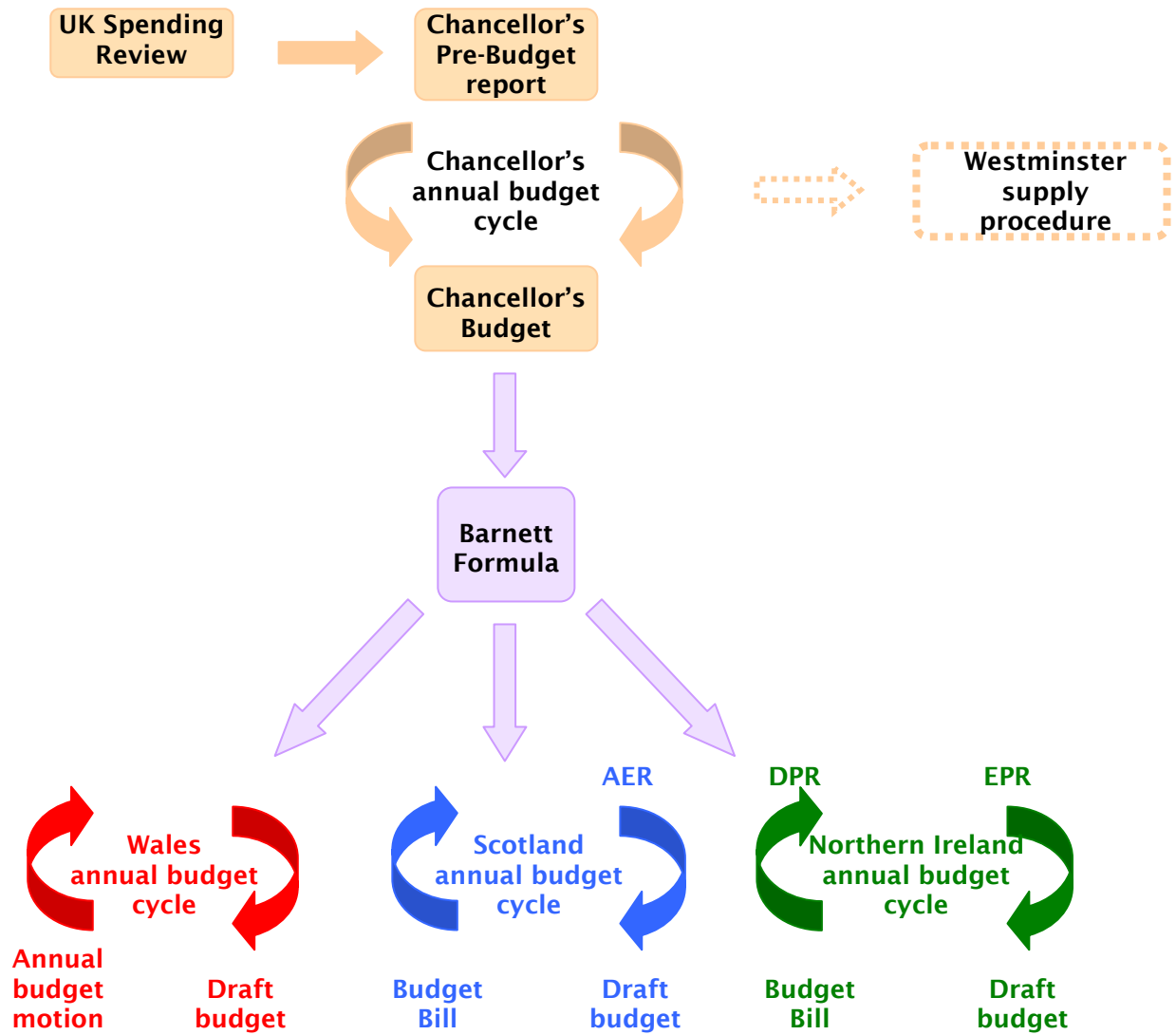
The 'assigned' element of DEL is commonly known as the 'block grant'. This is the portion over which the devolved administrations have complete discretion regarding its allocation across departments and programmes.<sup>3</sup> Changes to these budgets are generally determined by the Barnett formula, thereby removing the need to negotiate with HM Treasury. Under the formula, Scotland, Wales and Northern Ireland receive a proportion of the changes in planned spending by UK Government departments in England. The changes are determined by the quantity of the change in planned spending, the extent to which the relevant UK programmes are comparable with the services conducted by the devolved administration and each country's population proportion.<sup>4</sup>

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<sup>3</sup> The devolved administrations have **no** discretion over the total level of the assigned DEL.

<sup>4</sup> Further information on the Barnett formula can be found in the Members' Research Services paper [The Barnett Formula: funding the devolved administrations](#) or in the Quick Guide [The Barnett Formula](#). [at 21 October 2009]

Figure 1: Overview of the relationship between the Chancellor's budget and that of the devolved administrations.



## 2. Financial Scrutiny at Westminster

The central historical and constitutional principles, common to both expenditure and taxation, are that the Crown (which today means Ministers of the Crown) demands money, the Commons grant it and the Lords assent to the grant: but the Commons does not authorise expenditure or seek to impose taxes unless it is sought by the government.<sup>5</sup>

Each year Parliament authorises approximately £500 billion of public expenditure and the taxes required to fund such expenditure. There are overlapping financial frameworks which have important and significant differences, and Parliament's engagement with each of these frameworks is different.

- **Planning stage** - the UK Government plans its finances in the medium term via the spending review process.
- **Budget stage** - the annual process via which the Government assesses the state of the economy and plans how it will raise revenue in the coming year.
- **Estimates or Supply stage** - the process by which Parliament approves resources and cash for government departments for the coming year.
- **Reporting stage** - the process through which government departments' performance is reported to Parliament.

### 2.1 Planning Stage – Spending Reviews

The UK Government plans its expenditure in the medium term via spending reviews. Spending reviews set firm and fixed three-year departmental budgets for expenditure, and define the key improvements in public services that can be expected from these resources. The negotiation process for spending reviews begins when departments submit their proposals to HM Treasury. This results in three-year spending plans and public service agreements (PSAs) for each government department.

- **Spending plans** - each plan details total planned expenditure, (ie the department's budget) for the next three financial years, expressed as departmental expenditure limits (DEL). DEL is the total expenditure that a department can control, even though some elements may be demand-led. Departments also have annually managed expenditure (AME), which covers less predictable or controllable expenditure, (eg social security or CAP payments). Therefore, AME provisions are not used by HM Treasury to hold departments to account for their financial management. DEL and AME together constitute total managed expenditure (TME). AME, and therefore TME, are revised annually, and sometimes in-year.

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<sup>5</sup> Blackburn, R & Kennon, A., (2003), *Parliament Functions, Practices and Procedures*. London: Sweet and Maxwell.

- **Public Service Agreements (PSAs)** – present departmental objectives. They are three-year agreements, negotiated between government departments and HM Treasury, indicating what is to be obtained for the department’s expenditure. Each PSA sets out a department’s high-level aims, priority objectives and key performance targets. Traditionally, the focus for HM Treasury had been on inputs (money and resources), rather than outputs, (what the activity produces) or outcomes (intended effects to be achieved). PSA targets aim to switch the focus from inputs to outputs and outcomes.

The results of spending reviews are reported to Parliament in a statement and a command paper is published, usually in July of the year prior to the beginning of the three-year period.<sup>6</sup>

### *2.1.1 Introduction of spending reviews*

Prior to the introduction of spending reviews, the Government announced their spending plans annually in the Autumn Statement.<sup>7</sup> Spending reviews were introduced to:

- promote a medium-term perspective on financial planning
- emphasise the link between policy objectives and budgets

In 1997, the Chief Secretary to the Treasury (Alistair Darling) announced the first spending review.<sup>8</sup> The [1998 Comprehensive Spending Review](#) (CSR) involved a thorough review of departmental aims and objectives and a zero-based<sup>9</sup> analysis of each spending programme. It set spending plans and PSAs for the financial years 1999-2000, 2000-01 and 2001-02.

Although the spending reviews set three-year spending plans, between 1998 and 2004 spending reviews occurred at two-year intervals; thus the third year of the spending review was reviewed by the subsequent spending review before the financial year began. The spending reviews conducted in 2000, 2002 and 2004 were all undertaken on a resource basis, not, as in 1998, on a cash basis.<sup>10</sup>

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<sup>6</sup> Although the 2007 comprehensive spending review, (CSR 2007) reported in October 2007 together with the Pre-Budget Report.

<sup>7</sup> The Autumn Statement used to be made by the Chancellor of the Exchequer to the House of Commons to outline the latest projections for the economy over the following three years and broad departmental spending allocations. It was accompanied by publication of the Red Book, which contained the spending plans and financial statement. Norman Lamont made the last [Autumn Statement](#) on 12 November 1992 and it no longer exists in that form. The following year Kenneth Clarke merged the Spring Budget and the Autumn Statement; effectively this combined publication of the Red Book (spending plans) with publication of taxation plans to give the Unified Budget which was delivered in November. To fulfil the legal obligation Mr Clarke also made a Summer Statement to the House. This situation lasted for four years until Labour's election victory in 1997.

<sup>8</sup> [HC Deb 11 June 1997 c1143-57](#) [at 21 October 2009]

<sup>9</sup> **Zero-based** analysis is an approach to budgeting in which no costs or activities should be included in plans for the current or coming period just because they were present in the previous period, as opposed to only explaining the amounts requested in excess of the previous periods’ funding. That is, everything to be included must be justified from first principles.

<sup>10</sup> Resource budgeting takes account of resources, expenditure, cash and accruals providing a better measure of the actual cost of activities within government departments than simple cash-based budgeting.

### 2.1.2 2007 Comprehensive Spending Review (CSR)

On 15 July 2005, the Chief Secretary to the Treasury (Des Browne) announced that the Government intended to launch a second CSR reporting in 2007, to identify what further investments and reforms were needed to equip the UK for the global challenges of the decade ahead:<sup>11</sup>

With the start of the next spending review period coming a decade after the first, the Government propose to launch a second comprehensive spending examining what the investments and reforms initiated to date have delivered and what further steps must be taken to ensure that Britain is fully equipped to meet the challenges of the decade ahead.

This review will:

- take a zero based approach to assessing the effectiveness of Departments' existing spending in delivering the outputs to which they are committed;
- examine the key long-term trends and challenges that will shape the next decade and assess how public services will need to respond; and
- look at how the public expenditure framework can best embed and extend ongoing efficiency improvements and support the long-term investments needed to meet these challenges.

The review will complement the work of the long-term reviews already underway into the future of transport, skills, pensions and local services.

As a result of this, there was no spending review in 2006. Therefore, departmental allocations for 2007-08 were held at levels indicated in the 2004 spending review until the 2007 CSR reported. The results of the 2007 CSR were published in October 2007.<sup>12</sup> It presented the financial budgets for each department until 2010-11, their efficiency savings targets and their PSA targets. As the 2007 CSR was three years after the previous spending review, (rather than two), some aspects of the financial settlement had been published beforehand.

It was expected that there would be a spending review in 2009. However, when questioned with regard to the timing of the next spending review, the Chancellor has stated:

Departmental budgets are set until April 2011. As I said in the Budget statement, the current economic uncertainty means that it would not make any sense to try to set departmental budgets now for every year to 2014. However, as I said in the Budget, we will return to that issue at the pre-Budget report and then again in the Budget.<sup>13</sup>

### 2.1.3 Scrutiny of spending reviews

There is no systematic mechanism for parliamentary scrutiny of the spending review, as Parliament has no formal role in debating or approving the budgets set in spending reviews. The spending review is principally a process of negotiation between HM Treasury and government departments. However, the spending review largely determines the contents of the estimates (see [section 2.3](#)). There are ways in

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<sup>11</sup> [HC Deb 19 July 2005 c53WS](#) [at 21 October 2009]

<sup>12</sup> The 2007 CSR (and other spending reviews) can be accessed via the HM Treasury website: [HM Treasury. Spending Reviews](#) [at 21 October 2009]

<sup>13</sup> [HC Deb 14 July 2009 vol 496 col 145](#) [at 21 October 2009]

which MPs can be involved in scrutinising the spending review. Some elements of the spending review may be announced in the Budget and thus can be scrutinised by the Treasury Committee. In addition, departmental select committees may be involved in the consultation process on the spending review; for example, some select committees asked departments for advance details of their draft CSR 2007 PSA targets.

The 2006 Hansard Society report *The Fiscal Maze*<sup>14</sup> suggested that spending reviews should be used by Parliament to scrutinise government spending plans:

The evidence received by this inquiry suggests that spending reviews (and in particular the forthcoming CSR) with their summaries of departmental objectives, firm expenditure plans for forthcoming years and analysis of cross departmental issues, provide the ideal opportunity for Parliament to scrutinise government spending plans at both the macro and micro level. However, the timetable for the reviews, which are generally published in July, shortly before the long summer recess, limits the opportunity for detailed parliamentary scrutiny, particularly by select committees. Instead, most of the scrutiny takes place within the main chamber and there is little opportunity for committees to conduct a thorough analysis of budget allocations between and within departments.

The Treasury Committee undertook an inquiry into the 2007 CSR, reporting in June and December 2007.<sup>15</sup> In their initial report, one of the recommendations put forward was as follows:

We recommend that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure, giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval. We further recommend that the Government commit itself to working with select committees of the House of Commons, the National Audit Office and other interested parties to improve the clarity, consistency and comprehensibility of the documents placed before the House of Commons to seek authorisation for expenditure and to report on that expenditure.<sup>16</sup>

The Government response to this recommendation was as follows:

The Government agrees that better alignment of the spending control system would bring significant benefits. This issue forms part of the constitutional reforms announced to the House by the Prime Minister on Tuesday, 3 July, and was subsequently set out in a letter from the Chief Secretary to the Treasury to the chairmen of the Treasury, Liaison and Public Accounts Committees. The Treasury plans to take this forward with the aim of bringing planning, Parliamentary approval and reporting of public spending on to a more consistent basis, while improving the clarity, consistency and comprehensibility of the expenditure documents placed before the House of Commons. Consultation with Parliament, and all interested parties, will take place throughout this work.<sup>17</sup>

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<sup>14</sup> [Hansard Society, \*The Fiscal Maze: Parliament, Government and Public Money\*, 2006.](#) [at 21 October 2009]

<sup>15</sup> [Treasury Committee, \*The 2007 Comprehensive Spending Review: prospects and process\*, June 2007, House of Commons, HC 279, Session 2006-07](#) and [Treasury Committee, \*The 2007 Comprehensive Spending Review\*, December 2007, House of Commons, HC 55, Session 2007-08](#) [at 21 October 2009]

<sup>16</sup> [Treasury Committee, \*The 2007 Comprehensive Spending Review: prospects and process\*, June 2007, House of Commons, HC 279, Session 2006-07](#) [at 21 October 2009]

<sup>17</sup> [Government Response to the Treasury Committee's Sixth Report of Session 2006-07 \*The 2007 Comprehensive Spending Review\* HC 1027 \(October 2007\)](#) [at 21 October 2009]

## 2.2 *Budget Stage*

Since May 1997 HM Treasury presents two economic forecasts per year. In spring, the Chancellor presents the Budget, and in autumn, the Pre-Budget Report (PBR) is released. It should be noted that the parliamentary budget cycle relates **only to revenue** (ie taxes, fees and levies), **and not to expenditure**.

### 2.2.1 *Pre-Budget Report*

The Budget cycle begins with the Pre-Budget Report (PBR), which sets out forecasts for the economy and the public finances, and explains how the Government views its policies in helping to deliver its long-term goals. Acting as a signal of the Government's intentions, it describes what reforms are being considered ahead of the next Budget, alongside some announcements of policy.

The first PBR was published on 25 November 1997 and in his speech, the Chancellor (Gordon Brown) outlined its purpose:<sup>18</sup>

The purpose of this, the first annual pre-Budget Statement is to report the Government's assessment of the economy; to outline our Budget aims; and to encourage an informed debate on the detailed choices before us.

The PBRs for all years, the accompanying speeches and related documents can be accessed on the HM Treasury website.<sup>19</sup> THE PBR is accompanied by a report by the National Audit Office (NAO) that validates the assumptions underlying the fiscal projections contained within the PBR. These reports can be accessed via the NAO website.<sup>20</sup>

### 2.2.2 *Budget Documents*

The Budget is the major financial statement made each year by the Chancellor of the Exchequer to Parliament and the nation. Thus, it is the most publicly visible element of the wider public expenditure and planning and control system in the UK. The Budget sets out the Government's plans for taxation and expenditure on services for the coming year. It also provides a further assessment of the economy and the public finances and presents forecasts over the next few financial years. The Budget details the Governments economic and fiscal objectives, reports on progress made towards achieving these objectives and explains the further steps the Government is taking to meet its objectives.

Information contained within the Budget is published in two parts:

- **Economic and Fiscal Strategy Report (EFSR)** – describes the features of the national economy in a global context and reports on a range of economic and

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<sup>18</sup> [HC Deb 25 November 1997 c773](#). [at 21 October 2009]

<sup>19</sup> [HM Treasury. Pre-Budget Report](#) [at 21 October 2009]

<sup>20</sup> [National Audit Office](#) [at 21 October 2009]



fiscal measures. This explains how measures and other decisions announced in the Budget build upon those already introduced.

- **Financial Statement and Budget Report (FSBR)** – often referred to as the Red Book, the FSBR contains an analysis of the financial strategy and recent and planned developments in the economy as well as a summary of the Budget tax measures. This summarises all the measures and decisions announced since the last Budget that affect the Budget figure work and illustrates how these changes might influence government revenues and spending during the Budget period.

Also accompanying the Budget Report are a number of press releases from HM Treasury, Inland Revenue and other departments which add detail to the budget proposals and explain their background in greater detail. As in the PBR, the NAO validates some of the underlying assumptions in the Budget Report.

### *2.2.3 Budget Speech*

The Chancellor's speech generally follows the two parts of the Budget Report: a resume of the economic situation and a detailed account of the measures required to raise the revenue required. Traditionally, the Chancellor is heard uninterrupted. The response to the Budget speech is made by the Leader of the Opposition, with the Shadow Chancellor responding the day after the Budget. This is a long-standing convention and even Erskine May<sup>21</sup> provides no indication as to its origin. The convention means that the Leader of the Opposition is able to make a general speech on the state of the economy, while the Shadow Chancellor is able to spend a day analysing the details of the Budget prior to making a considered response.

### *2.2.4 Budget Resolutions*

At the end of the Budget speech, a resolution is usually passed to give immediate effect to certain proposals (eg increases in duty on tobacco, alcohol and petrol) under the *Provisional Collection of Taxes Act 1968*.<sup>22</sup> This enables new duty rates to take immediate effect, before the Finance Bill, which formally approves the Budget resolutions. The *Provisional Collections of Taxes Act 1968* allows taxes to be levied without statutory authority for only a specified period, therefore it is essential that the Finance Bill receives Royal Assent before this period ends.

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<sup>21</sup> Erskine May, *Parliamentary Practice*, Twenty Third Edition, 2004

<sup>22</sup> [Provisional Collection of Taxes Act 1968](#) – this is a re-enactment of an Act of 1913, introduced in the wake of the 1909 Finance Bill, which took a year to pass. Under this Act, a single motion can validate tax changes and continuations. [at 21 October 2009]

### 2.2.5 Finance Bill

The Finance Bill is brought in to give legal effect to the Budget resolutions, and is generally presented the same day. The Bill is set down for second reading in the normal way.<sup>23</sup> The second reading debate is usually a single day, and once the principle of the Bill has been approved, a motion is considered to send the Bill to committee. The Bill is then split; a Committee of the Whole House considers the most controversial, novel or significant clauses, while the remainder of the Bill is referred to a standing committee (typically 30-40 MPs). Generally, this committee does not meet until the committee of the Whole House has concluded the consideration of the sections of the Bill committed to it.

There are usually large numbers of amendments to the Finance Bill, laid by opposition members, backbenchers and by Ministers themselves. Not all the amendments will be debated: yet the Finance Bill committee traditionally involves long sittings. The report stage is usually taken over two days and does not differ from that on other Bills. The third reading is generally combined with the second day of the report stage. All proceedings on the Finance Bill are exempt business and therefore Committees of the Whole House and report stage can go on into the night.

Once the Finance Bill has passed through the Commons, it must proceed through the Lords. The Lords are forbidden by statute to consider Money Bills; although the Speaker is often unable to certify the Finance Bill as a Money Bill,<sup>24</sup> as it tends to contain matters outside the strict definition of such a Bill. However, the Finance Bill is a Bill of '*aids and supplies*'<sup>25</sup> and as such the Lords never seek to amend it.<sup>26</sup> As consideration by the Lords is generally a formality due to the convention that they cannot alter or reject it, it usually completes all its stages in one day. As the Lords cannot amend it, their printed version of the Finance Bill usually becomes the text of the Finance Act. The Bill then receives Royal Assent in the usual manner.

### 2.2.6 Budget Scrutiny

As detailed above, both the Budget and the Finance Bill are debated in the House of Commons. The Commons could potentially reject the Government's taxation proposals, however this would be equivalent to a vote of no confidence, and with a majority government this is unlikely to be successful.

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<sup>23</sup> For further information on the process involved in passing government legislation and the stages involved in the passage of a Bill see the House of Commons Information Office Legislation Series Factsheet L1 [Parliamentary Stages of a Government Bill](#) (July 2008). [at 21 October 2009]

<sup>24</sup> **Money Bill** – the *Parliament Act 1911* defines a money bill as a public bill which in the opinion of the Speaker of the House of Commons contains only provisions dealing with all or any of the following subjects namely: the imposition, repeal, remission, alteration or regulation of taxation; the imposition for the payment of debt or other financial purposes of charges on the consolidated Fund or the National Loans Fund, or on money provided by Parliament or the variation or repeal of any such charges; supply; the appropriation; receipt, custody issue or audit of accounts of public money; the raising or guarantee of any loan on the repayment thereof; or subordinate matters incidental to those subjects or any of them.

<sup>25</sup> A Bill with the primary purpose of levying taxes or authorising expenditure.

<sup>26</sup> Only the elected House of Commons can decide which charges should be made on the people. Neither the unelected House of Lords nor the Sovereign can have any say in such matters.

The Budget (and the PBR) are scrutinised by the Treasury Select Committee. They take oral and written evidence from a range of representatives on the implications of the Budget and produce a report. These reports can be accessed via the Treasury Select Committee's webpage.<sup>27</sup> Other departmental select committees may also investigate the impact of the Budget on their areas of responsibility.

As stated above the House of Lords do not amend the Finance Bill, however the rules governing this issue state that the Lords can:

...express their opinion upon public expenditure, and the method of taxation and financial administration, both in debate and by resolution, and they have investigated these matters by their select committees.<sup>28</sup>

In 2002 a group within the Lords, set up to review new procedures, considered how the Upper House could take a more active role in consideration of the Finance Bill, without encroaching on the commons financial privileges. They recommended that the Lords establish a permanent sub-committee within the Economic Affairs Committee (EAC) to consider the Bill.<sup>29</sup> They suggested that such a committee should focus on the scrutiny of tax administration and clarifying proposals within the Bill, rather than on the incidence or levels of taxation. The Economic Affairs Sub-Committee on the Finance Bill was established with the unanimous agreement of the House and has taken evidence from experts and officials, examined issues such as stamp duty and small business taxation and has issued regular reports, which can be accessed via the Sub-Committee's web page.<sup>30</sup>

The 2006 Hansard Society report *The Fiscal Maze*<sup>31</sup> suggested that Parliament should:

...increase its impact on the Budget process, to secure explanation from government for its priorities and to scrutinise better the legislation that enacts government taxation proposals. The advent of the Pre-Budget Report has reduced the need for traditional Budget secrecy. The timetable for consideration of both reports by Parliament should allow for thorough parliamentary scrutiny.

The report went on to make the following recommendations:

In the period between the Pre-Budget Report and the main Budget, parliamentary committees should take expert and public evidence on the government's plans, make a case for the priorities it wished government to consider, and ensure the government provides full information and explanation for its proposals. There should also be more opportunities to debate and question government spending proposals.

The entire Finance Bill should be subject to pre-legislative scrutiny by a parliamentary committee.

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<sup>27</sup> [Treasury Select Committee: Budget Reports](#) [at 21 October 2009]

<sup>28</sup> Erskine May (2004) *Parliamentary Practice*, 23<sup>rd</sup> Edition page 918.

<sup>29</sup> [Leader's Group on Working Practices, \(2002\) Report by the Group Appointed to Consider how the Working Practices of the House can be Improved, and to make Recommendation, HL111](#) [at 21 October 2009]

<sup>30</sup> [House of Lords Economic Affairs Sub-Committee on the Finance Bill](#) [at 21 October 2009]

<sup>31</sup> [Hansard Society, The Fiscal Maze: Parliament, Government and Public Money, 2006](#). [at 21 October 2009]

## 2.3 *Estimates Stage – The Supply Procedure*

The estimates (or supply) cycle is the process by which resources and cash provision to government departments for the coming financial year are requested by the Government and authorised by Parliament.

### 2.3.1 *Supply Estimates*

The supply estimates are the means by which government departments seek parliamentary authority for expenditure and for the drawing down of finance from the Consolidated Fund.<sup>32</sup> The constitutional practice is that: the Government requests money, the House of Commons grants money and the House of Lords assents to the grant. Each department prepares their estimates and after examination and amendment by HM Treasury, the Financial Secretary to HM Treasury presents them to the House of Commons; only HM Treasury can lay estimates. Supply estimates for each government department can be submitted up to four times each year.

### 2.3.2 *Main Estimates*

A large proportion of the main estimates are derived directly from the spending review process. The main supply estimates for the coming financial year are presented to Parliament after the Budget, usually in April/May. Each departmental estimate is presented in the form one or more separate allocations, referred to as a Request for Resources (RfR).<sup>33</sup> Each RfR relates to a particular area of the departments expenditure and the department may not use funding under one RfR to fund expenditure within another RfR without the authorisation of Parliament.

The main estimates are produced in four volumes: the first covers the main central government departments, and there are separate volumes for the House of Commons, the National Audit Office and the Electoral Commission. There is a separate estimate for each government department and each contains the following:

- Net provision sought – ie the amount of expenditure in resource terms and the net cash requirement for the coming financial year;
- A formal description of each of the services to be financed from the estimate, known as its ambit. The ambit clearly indicates the scope of the expenditure to be financed from each RfR contained within an estimate, including non-cash items, where appropriate;
- The department which will account for the estimate; and

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<sup>32</sup> **Consolidated Fund** – this is the Government’s main bank account. Most of central government’s expenditure is financed from this fund and most taxes and other receipts are paid into it.

<sup>33</sup> **Request for Resources (RfR)** – an accruals-based measure of current expenditure. RfRs group together the costs of similar activities within a department.

- Any amounts, resources and cash that have already been allocated in the vote on account (see [section 2.3.6](#)).

The main supply estimates can be accessed on the HM Treasury website.<sup>34</sup> When estimates are placed before Parliament, the department sends an Explanatory Memorandum (an Estimate Memorandum) to the relevant select committee.<sup>35</sup> This should explain any differences between the current and previous estimate and the impact of any changes. This enables the committee to scrutinise the estimates more effectively.

### *2.3.3 Supplementary Estimates*

Supplementary estimates are used when departments wish to draw down additional funding beyond that already authorised in the main estimates, or transfer funding between RfRs. Supplementary estimates can be submitted three times a year: summer (May), winter (November) and spring (February). Summer supplementary estimates are rarely used, as they must be presented to Parliament soon after the main estimates.

Revised estimates may also be presented, which revise the original main estimate; these can either reduce the original estimate or alter the way in which it is allocated.

### *2.3.4 Parliamentary Consideration of Estimates*

Estimates must be laid before the House of Commons at least fourteen days before they are to be voted on. This is to allow for their examination by the relevant select committees (which receive advance drafts for consideration). This gives the committees the opportunity to propose a specific estimate for debate in the House.

During the parliamentary year, the Commons sets aside three Estimates Days on which to consider the supply estimates.<sup>36</sup> These are usually in December, March and June and one of the days must be split into two half days. The two whole days are also often divided in order that two debates may take place. The choice of estimates for debate is made by the Liaison Committee<sup>37</sup>, which recommends a particular select committee report in order that it can be ‘attached’ to a particular estimate. The fact that not all estimates are debated, and the fact that these debates may focus as much on policy as expenditure, places increased importance on the work of the select committees in scrutinising the Estimate Memoranda and ensuring that the funds requested are justified.

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<sup>34</sup> [HM Treasury, Main Supply Estimates](#), [at 21 October 2009]

<sup>35</sup> Departments generally do not publish these Estimate Memoranda, but the select committee may subsequently choose to do so.

<sup>36</sup> The Liaison Committee has previously recommended that the number of Estimate Days be increased from three to six. See [Liaison Committee, Shifting the Balance: Select Committees and the Executive, March 2000, House of Commons, HC 300, Session 1999-2000 paras 59-60](#), [at 21 October 2009]

<sup>37</sup> The Liaison Committee comprises the Chairs of all the select committees.

On these Estimate Days, the motion that is debated by the House is worded simply that the sum specified in the estimates should be granted, and a Minister moves such a motion, as financial initiative is a matter for the Crown. Amendments to such motions may be tabled. However, as the Commons does not initiate expenditure, any such amendment may only propose to reduce the amount of resources to be authorised. When this occurs, it is often a token reduction of £1,000 that is sought in respect of a particular RfR within an estimate. All other outstanding estimates are also voted on, without debate, at this time. These supply resolutions give only provisional authorisation of expenditure. Parliamentary authority comes with the passing of supply bills; (see [section 2.3.7](#)) this is a formal process, there will be no debate on any of the stages and each stage will go through ‘*on the nod*’.

### *2.3.5 Excess Votes*

Excess votes seek retrospective authorisation when a department’s spending within a financial year has exceeded what Parliament has authorised; or has been used for a purpose that was not authorised. The National Audit Office examines these. No excess votes may be put to the Commons for approval without debate unless the Public Accounts Committee has no objection. Excess votes are presented to Parliament in the Statement of Excesses, which sets out the amount of cash and resources that the Government requests to be granted. The Statement of Excesses is published alongside Spring Supplementary Estimates.<sup>38</sup>

### *2.3.6 Votes on Account*

The votes on account predate the presentation of the main estimates. Prior to the beginning of the financial year, the Government must obtain approval for any expenditure it may incur over the first four months (ie until July and the passage of the *Appropriation Act*). This request for interim spending power is known as the votes on account, and these are published in November together with the winter supplementary estimates. Approximately 45 per cent of the previous years total estimates are covered by the votes on account, which must be agreed by early February. Without the votes on account, the Government would have no authority to spend funds between April and July.

### *2.3.7 Supply Bills – Consolidated Fund and Appropriation Bills*

The estimates, excess votes and votes on account are given legal effect via Consolidated Fund or Appropriation Bills. When enacted, these supply bills authorise the release of cash and use of revenues from the Consolidated Fund.

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<sup>38</sup> Recent Statement of Excesses can be found on the HM Treasury website: [HM Treasury. Statement of Excesses](#). [at 21 October 2009]

There is generally one Consolidated Fund Bill per session. However, 'Consolidated Fund clauses' with comparable function are included in subsequent Appropriation Bills. In addition to authorising the release of cash and resources from the Consolidated Fund, the Appropriation Bills also 'appropriate' the net resources and cash to specific RfRs and sets limits on the way in which funds can be spent. They also authorise the maximum income that may be appropriated in aid.<sup>39</sup>

- *Consolidated Fund Bill* – usually in December, this approves votes on account and winter supplementary estimates.
- *Consolidated Fund (Appropriation) Bill* – usually in March, this approves spring supplementary estimates and excess votes. Sometimes know as Appropriation (No 1) Bill.
- *Consolidated Fund (Appropriation) Bill* – usually in July, this approves the main estimates, summer supplementary estimates and revised estimates. Sometimes know as Appropriation (No 2) Bill.

These supply bills are set down for second reading shortly after the relevant estimates have been agreed. As there is no committee or report stage, the third reading is put forward immediately and thus the Bills are passed without any debate.

### *2.3.8 Formal Consent by House of Lords*

Following the passage of the Appropriation and Consolidated Fund Bills in the Commons, the Lords must give their consent for the Bills to receive Royal Assent. This stage is purely formal, as in financial matters the Lords have no parliamentary power to overturn the Commons approval.

### *2.3.9 Parliamentary Scrutiny of Planned Expenditure*

The 2006 Hansard Society report *The Fiscal Maze*<sup>40</sup> stated that:

When it comes to authorising government spending proposals, Parliament is seen as little more than an acquiescent bystander. On estimate days, billions of pounds of public spending are authorised without sufficient scrutiny or debate. More opportunities are needed for the House of Commons to be involved in the scrutiny of government spending plans.

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<sup>39</sup> **Appropriations in Aid** – income that a department is authorised to retain and spend, rather than surrender to the Consolidated Fund. Such income offsets expenditure in the same financial year.

<sup>40</sup> [Hansard Society, \*The Fiscal Maze: Parliament, Government and Public Money, 2006\*](#). [at 21 October 2009]

## 2.4 Reporting Stage

The supply estimates are not the only financial report presented to Parliament. Each year every government department produces an annual report, which sets out the departments' activities over the preceding year and details its plans for the future. These reports provide a good source for ascertaining how a department is spending its budget. The relevant departmental select committee usually examines annual reports.

### 2.4.1 Departmental Reports

Government departments produce departmental reports and autumn performance reports. Departmental reports provide detail on what the department does and how it is performing against its commitments (including the efficiency programme). These reports are published by departments each spring. Autumn performance reports provide an update of performance later in the year and complement the departmental reports.<sup>41</sup> The departmental reports generally provide a summary of:

- performance against PSA targets;
- progress in delivering the efficiency programme;
- provisional outturn for spending for the previous financial year and actual spending for the four years prior to that; and
- forecast expenditure for up to the next three financial years covered by the last spending review; this is broken down to provide more detail than that presented in the spending review.

Autumn performance reports are interim departmental reports and are usually published in December. They report progress on PSA targets and implementing the efficiency programme.

One of the main functions of departmental select committees is to monitor performance against PSA targets; this is achieved by reviewing the departmental and autumn performance reports. Most committees will have an evidence session where senior civil servants or Ministers are questioned on the departmental report.

### 2.4.2 Resource Accounts

The [Government Resources and Accounts Act 2000](#) requires almost all government departments to produce audited resource accounts, based on accruals accounting. Expenditure was previously planned and subject to parliamentary control solely on a cash basis; however resource accounts are prepared according to Generally Accepted Accounting Practice (GAAP) and follow the concept of accruals.<sup>42</sup> The use of

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<sup>41</sup> Departmental reports and autumn performance reports can be accessed via the Treasury website: [HM Treasury. Public Service Performance](#). [at 21 October 2009]

<sup>42</sup> The main advantage of accruals accounting is that it allows for better financial management and scrutiny by: matching expenditure in any period to revenues earned and obligations incurred in that period; and matching the cost of capital assets to the period in which they are used or consumed by charging depreciation on them.



resource accounting has led to a dual system of authorisation for estimates; authorisation for resources to be used during a financial year; and for the cash to be paid out of the Consolidated Fund.

The National Audit Office (NAO) must audit departmental resource accounts.<sup>43</sup> The Comptroller and Auditor General will lay the accounts for each department before Parliament, together with a report on the property of expenditure by each department, and whether it is in accordance with the appropriations in the Appropriation Act. These accounts should be laid before Parliament prior to the summer recess, after the end of the financial year to which they relate. The relevant select committees should also consider departmental resource accounts.

Resource accounts can also be scrutinised by the Public Accounts Committee (PAC). Standing Order 148 states that:

There shall be a select committee to be called the Committee of Public Accounts for the examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure and of such other accounts laid before Parliament as the committee may think fit<sup>44</sup>

The Committee consists of sixteen Members, including the Financial Secretary to HM Treasury, who does not normally attend meetings of the Committee. Members are nominated at the beginning of each Parliament on the basis of a motion made by a Government Minister, following consultation with the Opposition. The party proportions of the Committee, like other committees, must reflect that of the Commons. The PAC elects its own Chair, traditionally an Opposition member, usually with previous experience as a Treasury Minister.

Following the passing of the [National Audit Act 1983](#), the main work of the PAC has been the examination of the value for money reports of the NAO.<sup>45</sup> The objective of the PAC is to examine past successes and failures in order to apply lessons learned to future activity. The Committee does not consider policy, only value for money. The PAC also studies excess votes.

The PAC reports to the Commons on its findings and makes recommendations. The Government must respond to these reports and a selection of such reports and government replies are the subject of an annual debate in the Commons. The NAO, or the Committee itself, can conduct follow-up investigations on issues raised in reports, to track progress of the implementation of the Committee's recommendations.

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<sup>43</sup> The National Audit Office (NAO) is an independent body, headed by the Comptroller and Auditor General (CA&G), with direct responsibility to Parliament.

<sup>44</sup> [Standing Orders of the House Of Commons: Public Business 2009](#) [at 21 October 2009]

<sup>45</sup> In addition to the audit of government accounts, the NAO produces around 60 reports each year on the value for money of expenditure by government departments and other public bodies. Under the [National Audit Act 1983](#) the NAO can examine and report on the economy, efficiency and effectiveness of public spending. [at 21 October 2009]

### 2.4.3 Scrutiny of departmental reports and resource accounts

In the 2005 report, *Inside the Counting House*<sup>46</sup> the Hansard Society argued that Parliament performs its role of scrutinising Government accounts more effectively than its role of authorising Government spending:

In the area of audit and scrutiny of past expenditure, the Public Accounts Committee, the National Audit Office and the departmental select committees provide an important level of detailed accountability. However, just because these roles and functions have many positive aspects, this does not mean that there is no room for improvement. On the authorisation of taxation and government spending plans, the procedures such as the estimates and the related acts, it is widely held that Parliament does not seek, much less obtain, any form of exacting accountability.

The 2006 Hansard Society report *The Fiscal Maze*<sup>47</sup> stated that:

The combined work of the NAO/PAC and the departmental select committees results in significant savings for government, but considerably more could be achieved. However, the fundamental question is whether long term improvements in outcomes are achieved, wider lessons are learned and mistakes not repeated.

There should be a more co-ordinated approach to follow up the work of the PAC.

## 2.5 Improving Financial Scrutiny at Westminster

While Parliament must approve government spending, in practice, most of the power lies with the Government, provided it has a majority in the House of Commons. The Hansard Society's Commission on Parliamentary scrutiny argued:

The process by which revenue is raised and spending programmes are allocated has become ever more politically charged. The government regards getting its spending proposals through the House of Commons, in the form already decided upon in Cabinet and Whitehall, as essential to its programme and its credibility. Parliament has only one real sanction; to reject the government's spending proposals. With the majority of MPs being members of the governing party, they are most unlikely to take the 'nuclear option'.<sup>48</sup>

Proposals for making financial scrutiny a more significant part of select committee's work have been made on a number of occasions. The Sixth Report of 1998-99 of the Procedure Committee<sup>49</sup> discussed the involvement of select committees in the supply process, particularly the possibility of specifically referring the estimates to select committees.

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<sup>46</sup> [Hansard Society, \*Inside the Counting House: a discussion paper on Parliamentary scrutiny of Government finance, 2005\*. \[at 21 October 2009\]](#)

<sup>47</sup> [Hansard Society, \*The Fiscal Maze: Parliament, Government and Public Money, 2006\*. \[at 21 October 2009\]](#)

<sup>48</sup> Hansard Society, *The Challenge for Parliament: Making Government Accountable*, Report of the Commission on Parliamentary Scrutiny, 2001.

<sup>49</sup> [Procedure Committee, \*Procedure for Debate on the Government's Expenditure Plans, July 1999, House of Commons, HC 295, Session 1998-99\* \[at 21 October 2009\]](#)

Although select committees already have the power to consider the estimates, they felt that the matter needed to be more explicit:

...given that, almost without exception, committees do in fact undertake some examination of their department's annual report, we do not believe that a formal referral of Estimates to committees would present them with too great a burden. We believe that departmental select committees should, once a year, look closely at the expenditure incurred by their department, whether the result of that examination is radical critique or detailed examination of a small project.

The Government's response to this report rejected the recommendation because:<sup>50</sup>

Since Select Committees have the freedom to set their own agenda, committees already have the power to examine and report on the Government's expenditure plans. The Government welcomes committee scrutiny of these plans. However, formal referral of Estimates and expenditure plans to Select Committees would reduce the committees; ability to determine their own priorities, and the Government is not persuaded that this would be desirable.

Commentators have long recognised that select committees have tended to perform the task of financial scrutiny inadequately. This was a concern of the Hansard Society:

The Commission believes that select committees should play a greater role in financial scrutiny. Although Standing Orders establishing the departmental select committees gave powers to examine the expenditure (as well as the administration and policy) of the relevant Government Departments and associated public bodies, the Commission's research confirmed the low priority given to finance. Only around a third of select committee inquiries considered any form of expenditure issue and only 9.1% examined the estimates. ...Part of the problem is the limited influence of such reports, as by the time a committee had received the estimates, inquired and reported, it would probably be too late to make any difference. Understandably, the greater likelihood of influencing policy of administration will condition a committee's activity.<sup>51</sup>

The Modernisation Committee recognised the need for improved financial scrutiny by committees in their 2002 report<sup>52</sup>:

Financial scrutiny is a good illustration of the need for specialised support to select committees. It is impossible for select committees properly to discharge their job of scrutiny unless they can adequately examine the budget control of the Department they shadow and the priority of its spending plans. The introduction of Resource Accounting and Budgeting has increased both the potential for systematic financial scrutiny and the need for technical expertise to interpret it.

The report recommended that the National Audit Office (NAO) be invited to help assess the need for specialist and other support staff for select committees and to advise on how this could be best provided. This led to proposals for the development of a central scrutiny unit that would be specifically geared towards providing assistance to the select committees in their enhanced role of financial scrutiny.

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<sup>50</sup> [Government response to the Procedure Committee's Sixth Report of Session 1998-99: Procedure for Debate on the Government's expenditure plans](#), HC 388, 1999-2000, [Response to recommendations \(i\) to \(m\)](#). [at 21 October 2009]

<sup>51</sup> Hansard Society Commission on Parliamentary Scrutiny, *The Challenge for Parliament: Making Government Accountable*, Hansard Society, 2001, paras 5.8-5.9

<sup>52</sup> [Modernisation of the House of Commons Committee, Modernisation in the House of Commons - First Report.. February 2002](#), House of Commons, HC 224, Session 2001-02 [at 21 October 2009]

The Liaison Committee commented that:

... greater provision of specialist assistance from the scrutiny unit should enable committees to ensure that Departments are made accountable and transparent in more policy areas.<sup>53</sup>

The House of Commons Scrutiny Unit was subsequently set up in November 2002. The Unit forms part of the Committee Office in the House of Commons. It exists to strengthen the scrutiny function of the House by providing specialist expertise to select committees, especially (but not exclusively) on financial matters and draft bills. For further information on the work undertaken by the Scrutiny Unit, see its pages on the UK Parliament's website<sup>54</sup> or the factsheet *The Scrutiny Unit: A guide to its work*.<sup>55</sup>

In the 2007 Green paper *The Governance of Britain* the government commits to simplify its reporting to Parliament on financial matters<sup>56</sup>

A key role of Parliament, and of the House of Commons in particular, is to hold the Government to account for expenditure. The Government intends to make it easier for Parliament to do so by improving the transparency and accountability of Government expenditure, in line with recommendations from the House of Commons Treasury Committee.<sup>57</sup>

At present there are three different systems for presenting Government expenditure. The Government uses budgets to plan what it will spend; then it presents Estimates to Parliament for approval; and finally, after the year-end, it publishes resource accounts. There are some important differences between these three systems. Although there are good historic reasons for the evolution of different systems, the current state of affairs can be confusing for users and consumers; restricts good financial management in Departments; is costly and inefficient for Government; and makes it difficult for the House of Commons to track how resources are being used.

The Government will therefore simplify its reporting to Parliament, ensuring that it reports in a more consistent fashion, in line with the fiscal rules, at all three stages in the process; on plans, Estimates and actual expenditure outturns. This will make it easier for Parliament to understand how the Government has used the resources voted to it, and thus to hold the Government to account. It will also mean greater administrative efficiency. The Government will consult on how best to effect this simplification.

In 2008, the Modernisation Committee, in its report on *Debating departmental objectives and annual reports*,<sup>58</sup> examined the proposals outlined in the Green paper and concluded that:

The Government's proposal for a more systematic and effective scrutiny of departmental objectives and annual reports in the Chamber is commendable. We consider that this objective could best be achieved through a balance of different practical measures. More consistent tagging of Departmental Annual Reports and associated select committee publications would go some way towards achieving the aim by clearly identifying existing opportunities for debate and providing Members with the material needed for effective scrutiny. Although there is little scope for timetabling additional debates without displacing existing business that is of interest

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<sup>53</sup> [Liaison Committee, \*Select Committees: Modernisation Proposals\*, March 2002, House of Commons, HC 692, Session 2001-02](#)

<sup>54</sup> [UK Parliament \*About the House of Commons Scrutiny Unit\*](#) [at 21 October 2009]

<sup>55</sup> [UK Parliament \*The Scrutiny Unit: A guide to its work \(November 2008\)\*](#) [at 21 October 2009]

<sup>56</sup> [The Governance of Britain CM170 \(July 2007\)](#) [at 21 October 2009]

<sup>57</sup> [Treasury Committee, \*The 2007 Comprehensive Spending Review: prospects and process\*, June 2007, House of Commons, HC 279, Session 2006-07](#) [at 21 October 2009]

<sup>58</sup> [Modernisation Committee, \*Debating departmental objectives and annual reports\*, May 2008, House of Commons, HC 530, Session 2007-08](#) [at 21 October 2009]

to Members, some time could be found in Westminster Hall. Finally, the Government should consider whether existing select committee time could be extended. We do not consider it necessary to debate every government department each year. Instead, we strongly support Liaison Committee input into the choice of department for debate. The Liaison Committee should also be able to suggest where the debate takes place, requesting a debate on the floor of the House rather than in Westminster Hall if it considers that the issues are of sufficient importance. The objective of any new arrangements for debating departmental objectives in the Chamber should be to enhance and build upon the existing and effective scrutiny carried out by select committees.

Following the proposals set out in the Green paper, HM Treasury launched the alignment project, which aims to simplify financial reporting to Parliament:

To create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage.<sup>59</sup>

The alignment project envisages bringing budgets, estimates and accounts more closely into line and rationalising the finance-related documents presented to the Commons in annual cycles. Overall, this should make it simpler to track a department's finances from expenditure budgets to in-year expenditure outturns. The Government aims to begin a phased implementation of the proposals of the alignment project in April 2010 (subject to Parliamentary agreement).

In their 2008 report *Recreating Financial Scrutiny*<sup>60</sup>, the Liaison Committee commended the alignment project and the potential benefits it may bring to financial scrutiny. However, the report also sought greater scrutiny of spending reviews and debate in the Commons on their results. It also recommended that committees examine how each department's settlement is divided among its spending programmes, which would require the release of much more information soon after the spending review.

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<sup>59</sup> [HM Treasury. \*Alignment \(Clear Line of Sight\) Project\*. CM7567 \(March 2009\)](#). [at 21 October 2009]

<sup>60</sup> [Liaison Committee, \*Parliament and Government Finance: Recreating Financial Scrutiny\*, April 2008, House of Commons, HC 426, Session 2007-08](#) [at 21 October 2009]

Table 1: Timeline of parliamentary scrutiny in Westminster

DATE	BUDGET STAGE	ESTIMATES STAGE	REPORTING STAGE
November	<b>Pre-Budget Report</b> considered by committees, including Treasury Committee.	<b>Winter supplementary estimates</b> for current financial year.	<b>Departmental Reports</b> published for previous financial year; reviewed by select committees.
December		<b>Votes on Account</b> for next financial year. <b>Consolidated Fund Bill</b> becomes the <i>Consolidated fund Act</i> .	
January		<b>First estimates day</b> - select committee reports relating to particular estimates are debated, as selected by Liaison Committee.	
February		<b>Spring supplementary estimates</b> for current financial year. <b>Excess Votes</b> for previous financial year. <b>Second estimates day</b> .	
March	<b>Budget</b> statement and debate.	<b>Consolidated Fund (Appropriation) Bill</b> becomes the <i>March Appropriation Act</i> .	
<b>START OF NEW FINANCIAL YEAR</b>			
April	<b>Finance Bill</b> published and second reading.	<b>Main estimates</b> for current financial year.	<b>Departmental spending plans reports</b> for current financial year.
May		<b>Summer supplementary estimates and revised estimates</b> for current financial year.	
June	<b>Finance Bill</b> in committee.	<b>Third estimates day</b> .	
July	<b>Finance Bill</b> third reading and consideration by Lords; becomes <i>Finance Act</i> .	<b>Consolidated Fund (Appropriation) Bill</b> becomes the <i>summer Appropriation Act</i> .	<b>Resource Accounts</b> detailing expenditure for the previous financial year; presented to Commons following approval by NAO.

### 3. The Budget in Wales

In previous Assemblies, under the [Government of Wales Act 1998](#) the National Assembly for Wales was constituted as a corporate body with responsibility for both executive and scrutiny functions. The budget process provided for by the 1998 Act was designed to enable the Assembly to distribute the resources allocated (the grant paid by the Secretary of State) to its spending priorities. This was achieved by plenary voting to **adopt** the budget proposed by the Finance Minister.

Under the provisions of the [Government of Wales Act 2006](#) (GOWA 2006), the National Assembly for Wales was dissolved as a corporate body. The executive functions formerly conferred on the old Assembly were passed to the Welsh Government (the Welsh Ministers) and the scrutiny function to the reconstituted Assembly. As a result of this separation of functions, changes in the budget process were also required under the GOWA 2006.

Ministers (or the Assembly Commission, Auditor General for Wales and Public Services Ombudsman for Wales) need to use resources in order to undertake their functions. It is for Ministers to request and the Assembly to **authorise** the use of such resources, and this is done via a budget motion tabled in the Assembly by the Finance Minister. Such budget motions and later changes (supplementary budget motions) authorise and set statutory limits on:

- The use of resources by Welsh Ministers or the Assembly Commission, Auditor General for Wales (AGW) and Public Services Ombudsman for Wales (PSOW) for specified services and purposes;
- The retention of income by those organisations, rather than paying it into the Welsh Consolidated Fund (WCF)<sup>61</sup>, for use on specified services and purposes; and
- The cash that may be withdrawn from the WCF by those organisations.

The 2007 budget round (setting the budget for 2008-09 to 2010-11) was the first to operate completely under this new system. The budget process is governed by Standing Orders<sup>62</sup> of the third Assembly and the relevant sections of the GOWA 2006 (Part 5 deals with Finance).<sup>63</sup>

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<sup>61</sup> **Welsh Consolidated Fund (WCF)** – created by the GOWA 2006 this is a neutral bank account held by the Paymaster General. The grant from the Secretary of State for Wales is paid into the WCF and any other amounts received by the Welsh Ministers (or the Assembly Commission, Auditor General for Wales and Public Services Ombudsman for Wales) must also be paid into the WCF. The requirement to pay in such receipts can be over-ridden up to specified limits set in the budget motion thereby allowing their retention by Welsh Ministers (or the Assembly Commission, Auditor General for Wales and Public Services Ombudsman for Wales) for use on specified services and purposes.

<sup>62</sup> [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>63</sup> [GOWA 2006 Part 5 Finance](#). See also Members' Research Service research paper [Part 5 of the Government of Wales Act: Finance \(September 2006\)](#). [at 21 October 2009]

### **3.1 Draft Budget**

Standing Orders 27.1-27.6 relate to the draft budget, and require that a Welsh Minister must lay a draft budget before the Assembly setting out the amounts of resources and cash that the Government proposes to use for the next financial year (and provisional amounts for the subsequent two years) no later than 7 October.

Both scrutiny committees and the Finance Committee have the opportunity to input at the draft budget stage of the budget process. No motion may be moved in plenary in respect of the draft budget until the Finance Committee has made its report as required under the standing orders.

Scrutiny committees may consider the draft budget and make recommendations to the Finance Committee no later than two weeks after the draft budget has been laid. In turn, the Finance Committee must consider the draft budget and report to the Assembly no later than four weeks<sup>64</sup> after the draft budget has been laid. The report of the Finance Committee must append any recommendations received from other scrutiny committees.

The Finance Committee's report may (but is not obliged to) recommend changes to the draft budget, provided that these do not alter the overall amounts proposed in the draft budget – effectively, any recommended changes must sum to zero. Within two weeks of the Finance Committee's report, the Assembly must consider a motion, tabled by a Welsh Minister, that it takes note of the draft budget. Amendments may be tabled at this stage, provided they do not alter the overall amounts proposed within the draft budget.

### **3.2 Annual Budget Motion**

Standing Orders 27.17 – 27.20<sup>65</sup> relate to the annual budget motion. Following consideration of the draft budget a Welsh Minister is required to table the annual budget motion as required by Section 125 of the GOWA 2006,<sup>66</sup> on or before 3 December. The motion must incorporate the final budget for the Welsh Government, the final budgets for the Assembly Commission (as agreed by the Assembly under Standing Orders 27.7-27.12), the estimate for the AGW (as laid before the Assembly under Standing Orders 27.13-27.14) and the estimate for the PSOW (as laid before the Assembly under Standing Orders 27.15-27.16). The budget motion will request authorisation for the resources that can be used, income that can be retained and cash that can be drawn from the WCF. The resources that can be used will be split into specified services and purposes or ambits.

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<sup>64</sup> For the Draft Budget 2010-11 this will be increased to five weeks under SO27A Temporary amendments to SO 27. [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009].

<sup>65</sup> [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>66</sup> [Section 125 GOWA 2006](#). [at 21 October 2009]



Standing Order 27.19 requires that a minimum amount of information be provided in support of the annual budget motion:

- the written statement required under Section 125(3) of the 2006 Act;
- the resources agreed by HM Treasury for the Welsh block budget for the financial year covered by the motion;
- a reconciliation between the resources allocated to the Welsh block budget by HM Treasury and the resources to be authorised for use in the motion;
- a reconciliation between the estimated amounts to be paid into the WCF by the Secretary of State and the amounts to be authorised for payment out of the WCF in the motion; and
- a reconciliation between the resources to be authorised under Section 125(1)(a) and (b) of the 2006 Act and the amounts to be authorised for payment out of the WCF under Section 125(1)(c).<sup>67</sup>

In accordance with Section 125 of the GOWA 2006 and Standing Orders, the annual budget motion includes:

- *Schedule 1* – Ambits and resource limits for expenditure incurred by Welsh Ministers
- *Schedule 2* – Limits on the use of accruing resources by Welsh Ministers
- *Schedule 3* – Ambits and resource limits for expenditure incurred by direct funded bodies (Assembly Commission, AGW and PSOW)
- *Schedule 4* – Limits on the use of accruing resources by direct funded bodies
- *Schedule 5* – Resource to Cash Reconciliation (including the amounts of cash that may be withdrawn from the WCF)
- *Schedule 6* – Reconciliation of resources requested in the budget motion to resources made available by the Treasury for the Welsh Block
- *Schedule 7* – Reconciliation of cash inflows to the WCF to the cash issues to be requested in the budget motion

The Welsh Government also provides information on the main expenditure group (MEG) allocations, which allows comparisons to be made with previous years' budgets. In the 2008 budget round the Welsh Government also produced report accompanying the budget motion, which provided a narrative at the level of spending programme area and add clarity to the Welsh Government's spending plans.<sup>68</sup>

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<sup>67</sup> Section 125(1)(a) refers to resources which may be used for specified services and purposes and (b) to the amount of accruing resources which may be retained for use on specified services and purposes. Section 125(1)(c) refers to the amount which may be paid out of the WCF for use on specified purposes and services.

<sup>68</sup> The budget documents can be accessed on the Welsh Government's website: [Welsh Assembly Government Budget](#) [at 21 October 2009]

At this stage in the budget process, the budget priorities and allocations have been finalised following consultation at the draft budget stage. No amendments may be tabled to an annual budget motion and Members options are limited to abstaining, or voting to support or oppose the motion as a whole.<sup>69</sup> However, the debate on the annual budget motion presents individual Members with the opportunity to introduce into the debate points on any unmet priorities or issues of specific concern.

The giving of financial authority for the use of resources is therefore a matter for Members. Conversely, only Ministers can ask for the use of resources and Members cannot authorise amounts that Ministers have not asked for. This is in exact parallel with the Whitehall-Westminster system.

### **3.3 *Supplementary Budget Motions***

Standing Orders 27.21-27.27 relate to supplementary budget motions as provided for in Section 126 of the GOWA 2006.<sup>70</sup> Welsh Ministers may table supplementary budget motions, at any time after the annual budget resolution has been passed.

Essentially the Welsh Ministers must lay a supplementary budget if they wish to move amounts from one ambit to another, extend the scope of an existing ambit, create an entirely new ambit, or increase the amounts of any resources accruing that they are authorised to be retained under an ambit.

The information provided in support of a supplementary budget motion must include any changes to that presented with the annual budget motion (under SO 27.19). A supplementary budget motion may not be moved until either: the Finance Committee has reported on the motion; or, the Finance Committee has not reported on the motion and three weeks has passed since the motion was tabled. The Finance Committee's report on a supplementary budget motion may recommend changes provided that these do not alter the overall amounts proposed in the motion.

Amendments to a supplementary budget motion may only be tabled to vary the motion, and can only be tabled by a Welsh Minister. The authorisation of a supplementary budget motion by the Assembly is required to prevent irregular expenditure from occurring.

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<sup>69</sup> [Section 127 of GOWA 2006](#) deals with the situation where the Assembly has passed no Budget resolution at the beginning of the relevant financial year. It provides for the use of up to 75% of the resources; the retention of income up to 75% of the retained income; and the payment of cash out of the WCF up to 75% of the cash approved for the previous financial year for services and purposes approved in the previous year. The percentage increases to 95% after the end of July, if no budget resolution has been approved for that financial year. [at 21 October 2009]

<sup>70</sup> [Section 126 GOWA 2006](#). [at 3 August 2009]

### 3.4 Role of Committees

Standing Order 12.1 of the third Assembly states that:

There must be scrutiny committees with power within their remit to examine the expenditure, administration and policy of the government and associated public bodies.<sup>71</sup>

It is the responsibility of the Business Committee to determine the titles and remits of the scrutiny committees as soon as possible after every Assembly election,<sup>72</sup> and the Business Committee must ensure that:

...every area of responsibility of the government and associated public bodies is subject to the scrutiny of a scrutiny committee.<sup>73</sup>

Standing Order 14.1 requires the establishment of a Finance Committee to consider and report on:

- (i) any report or other document laid before the Assembly by Welsh Ministers or the Commission containing proposals for the use of resources, including budget motions and supplementary budget motions prepared under sections 125 and 126 of the Act;
- (ii) the estimates of income and expenses prepared by the Ombudsman under paragraph 15 of Schedule 1 to the *Public Service Ombudsman (Wales) Act 2005*; and
- (iii) the use of resources and payments out of the WCF reported to the Assembly by Welsh Ministers under Section 128 of the Act.<sup>74</sup>

It is also within the remit of the Finance Committee to consider and report on financial information in explanatory memoranda accompanying proposed Assembly Measures, and any other matter relating to the expenditure of Government or payments out of the WCF. Furthermore, the Finance Committee may choose to comment on the timetable for the consideration of budget proposals and budget motions and on the handling of financial business.<sup>75</sup> The Finance Committee must also consider and report on any payments made out of the WCF under the contingency provisions allowed according to Section 128 of GOWA 2006 (where Welsh Ministers deem urgent spending is necessary in the public interest).

### 3.5 Summary of 2007 Budget Round

The 2007 budget round (setting the budget for 2008-09 onwards) was the first to operate completely under this new system. Due to the late completion of the UK Government's 2007 Comprehensive Spending Review, the draft budget could not be presented on time. A temporary Standing Order<sup>76</sup> was introduced to allow for this and amend the timetable of the budget round.

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<sup>71</sup> [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>72</sup> SO 12.2 [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>73</sup> SO 12.4 [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>74</sup> SO 14.1 [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>75</sup> SO 14.2 [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009]

<sup>76</sup> Temporary Standing Order 27A – Finance Procedures – Temporary Amendments to Standing Order 27, as detailed in the [Report of the Business Committee: Proposal to Change Standing Orders \(September 2007\)](#). The motion was passed in Plenary (NDM3682 [RoP 3 October 2007](#)) to adopt this temporary standing order. The temporary standing order ceased to have effect once the annual budget motion was tabled on 15 January 2008. [at 21 October 2009]

Thus, the timings were amended as follows:

- Draft budget to be laid by 5 November 2007;
- Annual budget motion to be laid by 16 January 2008.

The draft budget proposals were laid on 5 November 2007.<sup>77</sup> Further detail of the draft budget was provided in the accompanying document: Main Expenditure Group allocations for Welsh Ministers 2008-09 to 2010-11.<sup>78</sup>

The Finance Committee Report on the Draft Budget 2008-09 was laid on 3 December 2007.<sup>79</sup> The report states that:

This is the first year in which the Assembly has had a Finance Committee to scrutinise the budget and it coincides with new procedures necessitated by the Government of Wales Act 2006 and the revised Standing Orders. The process of scrutinising the budget has proved difficult because of concerns about the information provided and some (understandable) uncertainty about the roles of the different committees involved in the process. The situation was complicated by the limited time available to consider the budget and the difficulties faced by some of the scrutiny committees in finding a time in Ministers' diaries when they were to give evidence. **The Finance Committee will, in the light of its experience, be considering how these procedures have operated in practice with a view to producing a separate report on the budget process after the present round has been completed. The Finance Committee strongly recommends that, in future, the budget process is prioritised in the diaries of both Ministers and committees to ensure sufficient time is made available for adequate scrutiny.**

In his response to the Finance Committee's report on the draft budget,<sup>80</sup> the Finance Minister stated:

It is entirely appropriate to review the Assembly's procedures for scrutiny of the budget after their first year in operation. I welcome the Finance Committee's intention to conduct such a review and look forward to their report.

The procedures for scrutiny of the budget are set out in Standing Orders and change would, therefore, be a matter for the Business Committee and the Assembly more widely. However, I would have no objection in principle to prescribing more time for the process or to any other changes to improve the quality of consultation and scrutiny.

On 3 July 2008, the Finance Committee laid its report on the operation of the budget process before the Assembly.<sup>81</sup> As stated in the report, this was intended to:

...take(s) an initial look at how the budget process as designed under Part 5 of the Government of Wales Act 2006 and Standing Order 27 has operated in practice and make(s) a number of recommendations for improvement which the Finance Committee hopes will be helpful to the Assembly and the Government.

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<sup>77</sup> [Welsh Assembly Government, Draft Budget Proposals 2008-09, GEN-LD6847, 5 November 2007.](#) [at 21 October 2009]

<sup>78</sup> Welsh Assembly Government, Draft Budget 2007 Main Expenditure Group Allocations.

<sup>79</sup> [Finance Committee, Draft Budget Proposals 2008-9, CR-LD6896, 3 December 2007.](#) [at 21 October 2009]

<sup>80</sup> [Finance Committee Paper \(FIN\(3\)-01-08\) Welsh Assembly Government response to the Finance Committee report on the draft budget proposals 2008-09, 17 January 2008.](#) [at 21 October 2009]

<sup>81</sup> [Finance Committee, Operation of the Budget Process, CR-LD7128, 3 July 2008](#) [at 21 October 2009]

In general, the report found that:

The budget scrutiny process was a considerable improvement on that undertaken in previous years despite the timing constraints.

The report goes on to suggest that:

The scrutiny of the Government's draft budget would be aided by a written explanation of its main features and a better linking of the spending plans to policy objectives.

In relation to the role of other scrutiny committees, the report states that:

...financial scrutiny should be an ongoing process and not an annual event. The other scrutiny committees have a vital role to play in giving their views on spending priorities, examining the detailed budgets for individual portfolios and also looking at how resources are used during the year.

The Finance Committee would welcome comments on budgetary matters from other scrutiny committees at anytime during the year.

The report also discusses the drawing up of a protocol with the Finance Minister to cover matters too detailed or otherwise inappropriate to be covered by Standing Orders. The report suggests that such a protocol should include:

- A list of the minimum documentation to be provided by the Government in support of the draft budget motion. This could potentially include: an explanation of the resources made available by HM Treasury in spending review years, including proposed use of resources under the end of year flexibility regime<sup>82</sup>, and in-year changes in non-spending review years; a commentary on the Finance Minister's resource allocation to portfolios and contingency reserve; a commentary and breakdown of spending plans for each portfolio; and a link between spending plans and policy objectives.
- Arrangements for the taking of evidence from the Finance Minister with regard to the budget.
- Provision of information on in-year reallocations of resources within departments, outturn against budgets and proposals to enter into significant contingent liabilities.
- An additional stage to the budget process in spending review years.

At the time of writing, such a protocol has not yet been formally agreed.

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<sup>82</sup> **End Year Flexibility (EYF)** – the mechanism to carry over unspent provision in the DEL assigned budget in one year to later years. This ensures any underspend remains available rather than being returned to the Treasury; is subject to Treasury approval.

The Committee's report also recommends that the following amendments to Standing Orders should be considered:

SOs 27.1 and 27.8 to provide for the Finance Committee to report by a fixed date rather than an elapsed time following the tabling of draft budgets. Alternatively, the Government should be committed to announcing the date on which it will table the budget by the end of May

SOs 27.5, 27.24 and the final sentence of SO 27.8 to be deleted

SO 27.6 to be amended so that the plenary debate is based on a motion in respect of the Finance Committee's report on the draft budget

## 4. The Budget in Scotland

The budget process in Scotland originates from the recommendations of the Financial Issues Advisory Group (FIAG). The Group was established by the Secretary of State for Scotland in 1998, and consisted of public finance experts and senior civil servants. The Scottish Parliament gave them the task of proposing rules, procedures, standing orders and legislation for the handling of financial issues. The FIAG reported in 1998<sup>83</sup> and recommended a three-stage process of budget scrutiny and authorisation.

The current process reflects revisions made since devolution with the agreement of the Scottish Parliament's Finance Committee, to take account of the spending review and to reduce the incidence of repetition encountered in the original procedures.<sup>84</sup> The Scottish budget operates on a two-year cycle, based around the spending review. In spending review years, the process consists of three stages. In non-spending review years, (where there is generally little change in the budget figures) the process is truncated. The three stages of the budget process are as follows:

### 4.1 Stage 1 – Annual Evaluation Report (AER)

Stage 1 occurs in spending review years only, and it allows Parliament to take a strategic look at the Government's spending priorities across the current spending review period and assess performance targets for each portfolio set in the previous spending review. It must be published by the 31 March, or the first day thereafter on which Parliament sits.

The AER includes a performance report showing progress against targets from the previous spending review and gives a statement of the Government's priorities for the next spending review. Each chapter of the report covers a different Ministerial portfolio. The report is essentially a consultation document and the relevant subject committees are responsible for commenting on the relationship between expenditure plans and priorities. This may involve consultation with outside bodies, interested parties and the public. The Finance Committee then coordinates the responses into a Stage 1 report, which is debated in Parliament in June, concluding this stage of the process. The Government must respond in detail to the Finance Committee's report.

- Although the last spending review was in 2007 (the 2007 CSR), stage 1 of the budget process was not undertaken due to the delay of the spending review, and a clash in timings between the 2007 CSR and the Scottish Parliamentary elections.

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<sup>83</sup> [Scottish Office, Principles of the Scottish Parliament's Financial Procedures: Final Report by the Financial Issues Advisory Group \(1998\)](#) [at 21 October 2009]

<sup>84</sup> The process is guided by an agreement between the Finance Committee and the Executive, [Scottish Parliament Finance Committee, Agreement on the Budgeting Process \(2000\)](#) which set an annual three stage process. This agreement was updated in 2005, [Scottish Parliament Finance Committee, The Budgeting Process Agreement between the Scottish Executive and the Finance Committee \(2005\)](#), agreeing to a three stage process in spending review years, with no stage one in non-spending review years. [at 21 October 2009]

Thus, the last AER to be produced was the [AER 2005-06](#).<sup>85</sup> The Finance Committee completed their [Stage 1 report](#)<sup>86</sup> in June 2004, and the report was debated in Parliament on 24 June 2004.<sup>87</sup>

#### **4.2 Stage 2 – Draft Budget**

- The Government considers the responses received from Parliament in stage 1 and prepares spending plans accordingly. The draft budget for the following year is published in September or October and sets out the Government’s detailed spending plans for the following year.<sup>88</sup> The Government must also indicate at this point whether it intends to use its tax varying power during the following financial year.
- This stage allows subject committees to scrutinise the Government’s draft budget which presents firm spending plans for the following financial year. It also allows Parliament to assess whether the Government has taken on board any recommendations made during stage 1, and to assess the allocation of any additional monies assigned by the UK Government since the publication of the AER (eg from the UK Budget or spending review).
- Again, as at stage 1 Parliamentary committees and the public are consulted. The subject committees report to the Finance Committee to identify whether or not the recommendations made in stage 1 have been acted on by the Government. At this stage, the Finance Committee may propose changes to the budget, not involving more resources in total (ie proposed increases in budget allocations must be offset by savings elsewhere in the budget). The Finance Committee then reports, pulling together the subject committee recommendations, and the report is debated in Parliament in December, marking the end of this stage. Committees or individual Members may table motions and amendments at this stage. It is for the Parliamentary Bureau to decide which amendments to put forward for consideration by Parliament. Any amendment proposing change in any area must make recommendation as to how such changes will be financed so that overall spend is not increased.

During the budget round 2008-09, the debate on the Finance Committee’s report was effectively incorporated into the debate on the Stage 1 debate on the Budget Bill.<sup>89</sup> This was due to time constraints as there was not time to fit in an extra debate between the publication of the Finance Committee’s report and the deadlines set down for the introduction of the Budget Bill. However, during the budget round for 2009-10 the Finance Committee’s report and the budget bill were debated

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<sup>85</sup> [Scottish Executive, Annual Evaluation Report 2005-06 \(2004\)](#). [as 21 October 2009]

<sup>86</sup> [Scottish Parliament Finance Committee, 5th Report 2004, Stage 1 of the 2005-06 Budget Process \(18 June 2004\)](#) [as 21 October 2009]

<sup>87</sup> [Scottish Parliament Official Report 24 June 2004 Col 9503](#) [as 21 October 2009]

<sup>88</sup> It is possible that a UK spending review will take place around the same time and may have a direct impact on the size of the Scottish Government’s budget. If this occurs, the Scottish Ministers will consult the Finance Committee on a revised timetable for the budgeting process that year. For example, the 2007 CSR reported in October 2007, thus the publication of the draft budget was delayed until 14 November 2007.

<sup>89</sup> [Scottish Parliament Official Report 25 January 2007 col 31515](#) [as 21 October 2009]



separately. The Finance Committee's report on the draft budget 2009-10 was published on 10 December 2008<sup>90</sup>, and was subsequently debated in Plenary on 17 December 2008.<sup>91</sup>

### 4.3 Stage 3 – Budget Bill

- The final stage of the process involves the publication of the budget and the formal Scottish Parliamentary process of enacting the Budget (Scotland) Bill, and thus authorising spending for the following financial year. The Bill sets out the spending plans of the Scottish Ministers for the following financial year, having taken into account comments made at earlier stages in the budget process. Due to the extensive pre-legislative scrutiny undertaken, the time allocated to the passage of the Budget Bill in stage 3 of the process is truncated. Only members of the Government may propose amendments at this stage, and once enacted, the Bill provides the statutory authority for expenditure by the Government and all other bodies whose expenditure is paid out of the Scottish Consolidated Fund.

- Together with a complete set of Budget proposals the Government should produce an accompanying commentary setting out how it has responded to the Scottish Parliament's earlier reports and the latest developments in Westminster.

According to Standing Orders, Parliament may not vote on the Budget Bill until 20 days have elapsed from the date it was presented, but must vote within 30 days of its presentation.<sup>92</sup> This is in part to give spending bodies as much notice as possible of their spending allocations and to ensure that there is sufficient time for the bill to receive Royal Assent.

- The first stage is a debate in Parliament, followed by an evidence session with the Minister for Finance at the Finance Committee and concluding with a further debate in Parliament. The Parliament votes to pass the Bill (thereby authorising expenditure for the following financial year) or to reject the Bill in its entirety. It was a recommendation of the FIAG that Parliament retained the right to accept or reject the Budget as a whole in order to ensure that the Government does not flout its position to an unacceptable degree. However, the group stated that outright rejection of the final budget should be an option of last resort and would be highly unlikely. If the Budget Act is not in place by the end of the financial year, the [Public Finance and Accountability \(Scotland\) Act 2000](#) allows for expenditure to continue for previously approved purposes up to the same rate as the previous year.

During the 2009-10 budget round, the [Budget \(Scotland\) \(No 2\) Bill](#) completed stage 1 on 14 January 2008.<sup>93</sup> The Finance Committee subsequently took stage 2 on 20

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<sup>90</sup> [Scottish Parliament Finance Committee. 7th Report 2008. Report on the Scottish Government's Draft Budget 2009-10 \(10 December 2008\)](#) [as 21 October 2009]

<sup>91</sup> [Scottish Parliament Official Record 17 December 2008 col 13443](#) [as 21 October 2009]

<sup>92</sup> Rule 9.16, 5 [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

<sup>93</sup> [Scottish Parliament Official Report 14 January 2009 col 13929](#) [as 21 October 2009]

January 2009.<sup>94</sup> However, at stage 3, which was taken on 28 January 2009,<sup>95</sup> the motion to agree the budget was not agreed and the Bill fell. In response to the Bill falling, the Finance Minister (John Swinney) stated:

In light of the vote that has just taken place and the serious position in which that leaves Scotland, the Scottish Government will not delay in seeking to resolve the budget issues for next year. I give notice to Parliament that I will reintroduce the 2009-10 budget bill to Parliament at the earliest possible opportunity, and certainly within a matter of days. The Government recognises its important obligation to put in place a budget that is effective for the people of Scotland from the start of the financial year. That is why we will take early action still to achieve that for 2009-10. We all have an interest in considering the matter as soon as Parliament's processes allow. The Government will introduce such a bill at the earliest possible opportunity.<sup>96</sup>

- The [\*Budget \(Scotland\) \(No 3\) Bill\*](#) was introduced the following day (29 January 2009), and on the 4 February 2009,<sup>97</sup> the Parliament agreed to consider the Bill under the Emergency Bill procedure, which allows stages 1, 2 and 3 to be considered on the same day.<sup>98</sup>

Using the Emergency Bill procedure the Bill was immediately referred to the Parliament for stage 1 consideration of its general principles. The Parliament agreed on a motion and the Bill was passed at stage 1. The Parliament then immediately moved to stage 2, which was taken by a Committee of the Whole House, no amendments were lodged and the Bill was passed at stage 2. Immediately following this, the stage 3 debate was held, again no amendments were lodged and the Bill was passed at stage 3. The Bill received Royal Assent on 10 March 2009 and became the [\*Budget \(Scotland\) Act 2009\*](#).

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<sup>94</sup> [Scottish Parliament Finance Committee Official Report 20 January 2009 col 921](#) [as 21 October 2009]

<sup>95</sup> [Scottish Parliament Official Report 28 January 2009 col 14403](#) [as 21 October 2009]

<sup>96</sup> [Scottish Parliament Official Report 28 January 2009 col 14461](#) [as 21 October 2009]

<sup>97</sup> [Scottish Parliament Official Report 4 February 2009 col 14646](#) [as 21 October 2009]

<sup>98</sup> Procedures for Emergency Bills are set out in Rule 9.21 of the [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 3 August 2009]

**Table 2: Timeline of parliamentary budget scrutiny in Scotland**

<b>STAGE ONE<sup>1</sup></b>	
<b>By 31 March</b>	Government publishes provisional expenditure plan, the Annual Expenditure Report (AER).
<b>April/May</b>	Subject Committees scrutinise relevant areas and report to Finance Committee.
<b>June</b>	Finance Committee reports to parliament. Government responds and report is debated.
<b>STAGE TWO</b>	
<b>September</b>	Government publishes Draft Budget containing firm spending plans for the following year.
<b>October/November</b>	Subject committees scrutinise relevant areas and report to finance committee.
<b>December</b>	Finance Committees reports to Parliament and may propose an alternative budget. Finance Committee report is debated.
<b>STAGE THREE</b>	
<b>By 20 January</b>	Government introduces Budget Bill. <sup>2</sup>
<b>January/February</b>	Parliament debates and votes on the Bill. The Budget Act is passed authorising expenditure for the following year.

1. Stage one only occurs in spending review years.

2. Only Scottish ministers can lodge amendments to the Budget Bill.

#### **4.4 Budget documents**

The documents published at the different stages of the budget process serve different purposes and are presented in different ways. The AER and the draft budget (stages 1 and 2) are presented on a portfolio basis, in terms of Ministerial responsibility. The budget documents accompanying the Budget Bill are presented on a departmental (or vote) basis. This is for reasons of stability<sup>99</sup> and because each budget heading is allocated an accountable officer within the Scottish Government who accounts to Parliament for the use of resources under their control.

<sup>99</sup> In that, departments are thought to be less likely to alter than Ministerial portfolios.

- The documents record expenditure at different levels to ensure that scrutiny of the budget can be relatively detailed. Level one reflects the expenditure recorded at portfolio level; level two covers expenditure at sub-portfolio level; and level three is expenditure in any detail greater than sub-portfolio level.<sup>100</sup>

#### 4.5 *Role of committees*

- A report commissioned by the Finance Committee of the Scottish Parliament highlighted that pre-devolution there had been relatively little scrutiny of the Scottish budget.<sup>101</sup> Post devolution, the new committees have a remit to consider financial proposals and financial administration of the Scottish Government that relate to or affect any competent matter.<sup>102</sup>
- As a result, subject committees are now responsible for the scrutiny of the relevant chapter of the AER (relating to their subject area) and for scrutinising the draft budget. The scrutiny process involves taking evidence from Ministers, senior officials and any other relevant individuals and organisations. Although public consultation is ordinarily a matter for the Parliament, the Scottish Ministers undertake to report to Parliament the results of any public consultations they carry out on expenditure proposals. The Finance Committee has the responsibility of co-ordinating the responses submitted by the various subject committees, producing a report based on these submissions and reporting to the Parliament.
- In Scotland, the Finance Committee is one of eight mandatory committees in the Scottish Parliament.<sup>103</sup> This is in contrast to subject committees that are established by the Parliament to deal with a particular subject. According to Standing Orders,<sup>104</sup> the Parliamentary Bureau must, by motion, propose the establishment of the Finance Committee within 21 sitting days of a general election.
- Standing Orders rule 6.6 prescribes the remit of the Finance Committee:
  1. The remit of the Finance Committee is to consider and report on—
    - (a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
    - (b) any report made by a committee setting out proposals concerning public expenditure;
    - (c) Budget Bills; and
    - (d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.<sup>105</sup>

<sup>100</sup> These levels are comparable to the main expenditure group (MEG), spending programme area (SPA), and action levels of detail familiar in the Welsh government's budget.

<sup>101</sup> [Flynn, N \(2001\) \*Moving to Outcome Budgeting Commissioned for the Finance Commission by the Scottish Parliament Research and Information Group\*](#). [as 21 October 2009]

<sup>102</sup> Rule 6.2 [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

<sup>103</sup> Rule 6.1, 5, c [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

<sup>104</sup> Rule 6.1, 6, a [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

<sup>105</sup> Rule 6.6, 1 [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

- Standing Orders<sup>106</sup> also provide for the Committee to consider and, where it sees fit, report on the timetable for the stages of Budget Bills and on the handling of financial business. Essentially the Finance Committee is concerned with public expenditure in Scotland. In practice, the principal focus of its activities is the annual budget process, which culminates in Parliament voting on a Budget Bill.

The budget process in Scotland (as described in the previous section) is intended to allow the Parliament's committees and Members the opportunity to comment on the Government's spending plans at several points throughout the year prior to the annual budget being agreed. The role of the Parliament and committees throughout the three-stage process is guided by an agreement between the Finance Committee and the Scottish Government.<sup>107</sup>

#### *4.5.1 Finance Committee review of the budget process*

On 9 June 2009, the Finance Committee published a report on Strategic Budget Scrutiny.<sup>108</sup> This considers specifically the future of Scottish Government spending given the current economic climate, including:

- the impact of the recession on public sector budgets in Scotland, both for 2009-10 and in future years;
- in particular, the pressures and demands on the Scottish Government's 2010-11 budget; and
- the likely implications for the Scottish Government's budget in the longer term.

The report is intended to inform scrutiny of the Scottish Government's draft budget for 2010-11. It concludes that 2009-10 is likely to be the peak year for public spending for some time, and it recommends that the Scottish Government should: take account of the longer term effects on public spending of decisions made in budget 2010-11; put in place contingency plans to deal with the possibility that future budgets may be tighter than expected; and consider how improved information and decision-making processes could aid the Scottish Government in controlling and managing budget challenges. The report also sets out areas for consideration by committees when scrutinising the 2010-11 budget, such as:

- requesting a robust analysis of the effect of recession and contingency plans;
- understanding the future implications of fixed costs and other financial commitments and policy priorities; and
- seeking a comprehensive and realistic evaluation of what is achievable using different approaches to make budget savings.

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<sup>106</sup> Rule 6.6, 2 [Standing Orders of the Scottish Parliament 3rd Edition \(December 2008\)](#) [as 21 October 2009]

<sup>107</sup> , The agreement was established in 2000 and updated in 2005. The updated version can be accessed here: [Scottish Parliament Finance Committee, The Budgeting Process Agreement between the Scottish Executive and the Finance Committee \(2005\)](#) [as 21 October 2009]

<sup>108</sup> [Scottish Parliament Finance Committee 2<sup>nd</sup> Report 2009, Strategic Budget Scrutiny \(9 June 2009\)](#) [as 21 October 2009]

In March 2008, the Finance Committee launched a review of the process for budget scrutiny.<sup>109</sup> They published their report on 29 July 2009, which included the following recommendations:<sup>110</sup>

- a strategic budget scrutiny phase should take place at least once in each parliamentary session, replacing stage 1 of the budget process, which has not occurred since 2004; the timing and objectives of such a phase should remain flexible;
- the Scottish Government should consider introducing a new system to inform the Finance Committee of the cost of policy announcements above a certain threshold;
- subject committees should continue to incorporate financial scrutiny into their inquiries into areas of Government policy;
- a parliamentary budget office should be established to supplement the support already available to committees and to provide extensive specialist support. This should be capable of providing independent advice and support for MSPs on budgetary trends and issues, undertaking independent costing of specific spending proposals and providing research on all aspects of public finances; and
- a change in terminology used in referring to the stages of the budget process, to avoid confusion and describe the stages in a more meaningful manner.

The Scottish Government's response<sup>111</sup> to this report accepted that a strategic budget scrutiny phase should take place once every Parliamentary session, and also accepted the recommendation to change the terminology referring to the stages of the budget process. Thus, beginning at the time of the 2010-11 budget the three stages will be referred to as the "Budget Strategy phase", the "Draft Budget Scrutiny phase" and the "Budget Bill phase". With reference to the recommendation on advising the Finance Committee of policy announcements involving expenditure above a certain threshold the Scottish Government state that they will further consider their response to this.

#### *4.5.2 Financial scrutiny outside the budget process*

- The Government is able to request Parliamentary authority to make in-year changes (known as revisions) to planned expenditure. Budget revisions generally occur in summer, autumn and/or spring and are outside the main budget scrutiny process for the following financial years' spending plans. They usually seek

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<sup>109</sup> [Scottish Parliament News Release, \*Parliamentary Committee to review budget process \(27 March 2008\)\*](#) [as 21 October 2009]

<sup>110</sup> [Scottish Parliament Finance Committee, \*5<sup>th</sup> Report 2009, Report on the Review of the Budget Process \(29 July 2009\)\*](#) [as 21 October 2009]

<sup>111</sup> [Scottish Government, \*Response to the Finance Committee's Review of the Budget Process \(September 2009\)\*](#) [as 21 October 2009]

approval to transfer monies between the departments of the Scottish Government, or to allocate transfers of monies between Whitehall and the Scottish Government. The Scottish Ministers are not able to transfer funds between allocations without the prior approval of the Parliament. The Finance Committee hold responsibility for scrutinising such proposals and for making recommendations to Parliament as to whether or not they should be granted.

In line with recommendations made by the FIAG, the Government is allowed to move funds around within departmental budgets to respond to changes in need. Such transfers are subject to internal controls and Parliament must be informed of such transfers on a regular basis. The total amount of funds that can be transferred between budget sections<sup>112</sup>, without the prior approval of Parliament through the budget revision procedure, is the lesser of 15 per cent of the receiving section's budget or £50 million (1999 values). Transfers within budget sections are not subject to any limits.

- There is some Parliamentary control over the Scottish Ministers' ability to enter into contingent liabilities.<sup>113</sup> Before granting any guarantees or indemnities in excess of £1 million, the Scottish Ministers will present their proposals to the Finance Committee. The Committee will consider the proposal within 20 days and either approve the proposal or propose an amendment. The Scottish Ministers can accept the amendment or notify the Finance Committee that they disagree. Should a disagreement occur, it is for the Finance Committee to decide whether to allow the Government to proceed with its proposal or to refer the matter to the Parliamentary Bureau for debate. This control is not intended to place restrictions over the Scottish Government's ability to enter into contracts.
- Access to the reserve (a small budget maintained by the Scottish Government from within the assigned budget to meet unforeseen, exceptional expenditure) also requires Parliamentary authority. Scottish Ministers (with Cabinet approval where appropriate) may apply for additional funding from the reserve, through what is essentially a bidding process. Parliamentary authority is sought through the usual process of in-year revisions and would be accordingly scrutinised by the Finance Committee.

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<sup>112</sup> A budget section refers to the level below the department as a whole. This is analogous to a spending programme area (SPA) within a main expenditure group (MEG) of the Welsh Government budget.

<sup>113</sup> Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. Within this context, contingent liabilities essentially represent legally enforceable undertakings given in the form of a guarantee or indemnity that would bind the Government into providing the resources in the event of the guarantee or indemnity maturing, or a letter or general statement of comfort, which could be considered to impose a moral financial obligation to the Government.

## 5. The Budget in Northern Ireland

The budget process in Northern Ireland has evolved and changed over the years since devolution. There are four distinct stages in the budget process. Stages 1 to 3 relate to expenditure planning, the making of the budget and its endorsement by vote in the Assembly. Stage 4 deals with the technical and legislative processes required to formally authorise the Budget as agreed by the Assembly.

### 5.1 Stage 1 – Departmental Position Report (DPR)

The Department for Finance and Personnel (DFP) issues commissioning letters to the Northern Ireland departments in February or March, together with guidance on the format, presentation and content required in the Departmental Position Report (DPR).<sup>114</sup> The production of the DPR provides details of a department's performance and the progress it has made towards delivering the priorities of the Executive. It also gives an assessment on the future departmental requirements necessary to deliver these priorities. The DPR is not a decision making document, but it is of key importance in identifying both the barriers to fulfilling the commitments given in the Programme for Government (see [section 5.3](#)), and the strategies and resources required by departments to deliver on their identified priorities and sub-priorities. Each department submits their DPR to the DFP in April, having received committee feedback on the report.

### 5.2 Stage 2 – Executive's Position Report (EPR)

The DFP and the Office of the First Minister and Deputy First Minister (OFMDFM) issue the Executive Position Report (EPR) jointly, in June. In the EPR, the Executive sets out the key issues affecting public services that should influence the Programme for Government and budget for the coming financial year. The report is the basis for advanced consultation ahead of the preparation of the draft budget and Programme for Government in September. It also sets out in summary form the DPR of each department and identifies how the Programme for Government might proceed. The EPR is not a decision making document. Its purpose is to highlight issues of strategic importance to the Assembly and seeks a 'steer' from Members and committees in the development of the draft budget.

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<sup>114</sup> The production of the Departmental Position Report was an innovation in the budget process 2002, created partly as a response to suggestions made by the Committee for Finance and Personnel. See the [Executive's Position Report to the Assembly: Developing the Programme for Government and the Budget 2003-04](#) (June 2002) recommendation 5 and section 2. [as 21 October 2009]



### **5.3 Stage 3 – Draft Budget and Programme for Government**

The Executive issues the draft budget in September in tandem with the draft Programme for Government (PfG). The draft PfG sets out the Executive's programmes, priorities, and the associated outline spending plans for the coming year. The PfG and the budget are closely linked and the priorities contained within the PfG drive decisions on the allocation of resources within the budget. It provides an overview of the Executive's work and demonstrates how policies and programmes delivered by different departments can be best combined to achieve agreed priorities. Public Service Agreements in the PfG set out the key targets that each department is seeking to deliver. The actions identified in the programme are supported by the allocations that are presented in the budget documents. Following committee feedback on the draft budget and PfG, the Minister for Finance and Personnel introduces the revised budget in the Assembly in mid-December for debate and approval.

### **5.4 Stage 4 – Legislative Requirements**

The final stage of the budget process concerns the legislative requirements for authorisation of expenditure agreed by the Assembly in the December budget. The Budget Bill No.1 incorporating the spring supplementary estimates and the vote on account is introduced in the Assembly in February. There is little opportunity for change at this stage; the Bill must reflect the figures agreed by the Assembly in the December Budget debate, may proceed by accelerated passage. Royal Assent follows by 31 March at the latest. The Budget Bill No.2 and main estimates are introduced in the Assembly during June/early July, again with little opportunity for change. Under the [Northern Ireland Act 1998](#), amendments to Budget Bills require a section 63 motion from the Minister for Finance and Personnel. Royal Assent usually follows in July.

### **5.5 Role of committees**

Under the Belfast Agreement<sup>115</sup>, the statutory committees of the Northern Ireland Assembly have a statutory duty to scrutinise the budget. Paragraph 9 of Strand 1 of the Agreement states:

The Committees will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation.

They will have the power to:

...consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation<sup>116</sup>

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<sup>115</sup> The [Belfast Agreement](#) (also known as the Good Friday Agreement) was reached in multi-party negotiations on 10 April 1998. It sets out a plan for devolved government in Northern Ireland on a stable and inclusive basis and provided for the creation of Human Rights and Equality commissions, the early release of terrorist prisoners, the decommissioning of paramilitary weapons and reforms of criminal justice and policing. [as 21 October 2009]

<sup>116</sup> [Belfast Agreement](#) Strand One para 9 [as 21 October 2009]

The Committee for Finance and Personnel is a statutory committee and was established in accordance with paragraphs 8 and 9 of the Belfast Agreement<sup>117</sup>, section 29 of the *Northern Ireland Act 1998*<sup>118</sup> and under Assembly Standing Order 48<sup>119</sup>. The Committee has a scrutiny, policy development and consultation role with respect to the DFP.

The committees of the Assembly play an important consultative and advisory role throughout the stages of the budget formation. During stage 1 of the process, departments consult Assembly subject committees on the DPR. Subject committees take oral evidence and written briefing from the Minister and senior departmental officials and other interested parties. It is for committees to decide how widely they consult before providing feedback on the DPR to the relevant department.

Stage 2 of the process involves consultation between committees and the Executive on the EPR. Committees are asked for their views on the relative priority that might be attached to different policies and programmes within the EPR. They may also give their views on the scope for meeting new challenges, potentially by reducing some services, improving effectiveness or through efficiency savings and improvements. At this stage, committees will consult with their department and more widely if they see fit, in forming an opinion on the EPR. The Committee for Finance and Personnel is responsible for co-ordinating the various responses and producing a report for submission to the DFP in August.

The last significant opportunity for committee influence on the budget process comes during stage 3, the draft budget stage. At this stage, the Executive consults with the Assembly committees and the public on the proposals contained within the draft budget. The Committee for Finance and Personnel is responsible for co-ordinating the responses to the draft budget from all the Assembly committees. It also initiates a 'take note' budget debate in the Assembly in mid-November, at which the proposals in the draft budget are debated by the full Assembly. Following this debate, the Committee for Finance and Personnel produces a report on the draft budget by the end of November, which is submitted to the Executive. The Minister for Finance and Personnel accordingly introduces a revised budget in the Assembly in mid-December for debate and approval. There is little scope for influence at this stage of the process.

Thus, the budget process in Northern Ireland is designed to provide a number of opportunities for committees, Members and the public to contribute to the budget. In addition, the role and remit of the committees provides extensive powers for committees to scrutinise the activities of departments and the Executive.

Committees have additional scope for budget scrutiny at quarterly monitoring rounds and in assessing progress in the achievement of the PfG targets and Public Service Agreements. They are also afforded the opportunity to scrutinise

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<sup>117</sup> [Belfast Agreement](#) Strand One paras 8 and 9 [as 21 October 2009]

<sup>118</sup> [Section 29 Northern Ireland Act 1998](#) [as 21 October 2009]

<sup>119</sup> [Northern Ireland Assembly Standing Orders](#) (June 2009) [as 21 October 2009]

departmental bids for Executive Programme Funds (EPFs)<sup>120</sup> and particular business areas within their respective department.

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<sup>120</sup> Executive Programme Funds (EPFs) are targeted funds for use to support programmes or projects of major importance to the Executive, or which will assist the development of activity across departments, or where resources are required to support activities that a department cannot support from its own resources.

**Table 3: Timeline of budget scrutiny in Northern Ireland**

<b>STAGE ONE</b>	
<b>March/April</b>	Departments produce Departmental Position Reports Committees consider and consult on DPRs and feedback to departments. Departments submit DPRs to Department of Finance and Personnel.
<b>STAGE TWO</b>	
<b>June</b>	Executive Position Report (EPR) issued. Committees consider and consult on EPR. Budget Bill No 2
<b>August</b>	Committee for Finance and Personnel co-ordinates committee responses to EPR and submit responses to Department of Finance and Personnel.
<b>STAGE THREE</b>	
<b>September</b>	Draft budget and Programme for Government issued. Committees consider and consult on draft budget.
<b>October</b>	Committee for Finance and Personnel co-ordinate committee responses. Draft budget debate in Assembly.
<b>November</b>	Committee for finance and Personnel report on draft budget.
<b>STAGE FOUR</b>	
<b>December</b>	Revised Budget, debate and approval.
<b>February</b>	Budget Bill No 1

### 5.5.1 Committee for Finance and Personnel budget scrutiny

In its report on the draft budget 2008-11, the Committee for Finance and Personnel highlighted a number of shortcomings in the current budget process. The recommendations associated with such shortcomings were as follows:

The Committee echoes the call, made by a number of the Assembly statutory committees, for a closer alignment between the revised Budget and the revised PfG than exists in the draft documents; in particular a more visible linkage is required between PfG priorities and goals, Public Service Agreement objectives and the allocations, departmental objectives and spending areas in the Budget. The Committee also considers that there would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments' bids and their outcomes being published as part of the draft Budget process.

The Committee considers that the future budget process and timetable needs to be settled early in 2008 to enable the Assembly statutory committees to schedule the necessary scrutiny into their work programmes and thereby provide departments with notice in terms of the future information and briefing requirements of committees.<sup>121</sup>

In its response to the Committee's report, the DFP responded as follows to the above recommendations:

The final Budget document provides a greater linkage with the Programme for Government through, for example, referencing the relevant Public Service Agreements within the Departmental Chapters. The key allocations made at a strategic level to departments and spending programmes also reflect the key priorities agreed by the Executive in its Programme for Government. These linkages were highlighted by the Finance Minister in his Statements to the Assembly on the draft and final Budget proposals.

However, the Budget document is strategic in nature and it is not always possible to link overall allocation in the manner suggested. In addition, while departments link their bids for resources to specific prioritised areas of activity, these are often revised once the final Budget allocation has been confirmed.

The timetable for the Budget 2008-11 process was later than that followed in previous exercises. However, this simply reflected the fact that the restored Executive needed sufficient time to consider the wide range of complex issues involved ahead of being able to agree a draft Budget for consultation.

The Minister is currently considering the timetable and arrangements for 2008.<sup>122</sup>

The Committee for Finance and Personnel are currently undertaking an inquiry into the role of the Assembly in scrutinising the Executive's budget and expenditure. This inquiry is being conducted in three stages and aims to maximise the contribution of the Assembly to the budget process and enhance the role of Members and statutory committees in financial and budget scrutiny.

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<sup>121</sup> [Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008-11, December 2007, Third Report of Session 2007-08](#) [as 21 October 2009]

<sup>122</sup> [Committee for Finance and Personnel, Report on the Executive's Draft Budget 2008-11 Departmental Response to Key Conclusions and Recommendations, March 2008](#) [as 21 October 2009]

The terms of reference are as follows:

#### **Stage 1**

1. To contribute to the ongoing Review of the NI Executive Budget Process by the Department of Finance and Personnel (DFP) by
  - a) examining the budget scrutiny processes in other applicable legislatures, for the purpose of identifying lessons for NI;
  - b) co-ordinating the views of the Assembly's statutory committees on the strengths and weaknesses of the 2007 Budget process; and
  - c) reporting on the outcome of (a) and (b) to DFP by end of October 2008.
2. To consider and respond to the findings from DFP's Review.

#### **Stage 2**

3. Following confirmation of the Executive's future budget process, to review the resources available for assisting Assembly statutory committees and members in undertaking budget and financial scrutiny and to put forward a set of practical recommendations for enhancing the capacity of the Assembly in this regard.

#### **Stage 3**

4. To review the processes for the in-year monitoring of departmental expenditure by the Assembly and its statutory committees, with a view to making recommendations to further improve the operation of the processes and to facilitate more effective scrutiny. This review to take place after the end of the current financial year, when the statutory committees and their respective departments will have experience of operating the recently introduced format for monitoring round information.<sup>123</sup>

In October 2008, the Committee published its report on stage 1 of this inquiry, which aimed to identify potential lessons from budget scrutiny processes in other legislatures and co-ordinating the views of statutory committees on the strengths and weaknesses of the 2007 budget process. The report states that:

The research provided to the Committee has indicated both that the Assembly has a relatively strong committee system, including in terms of the powers of committees to undertake budget scrutiny, and that the budget scrutiny process in the first mandate compared favourably with other legislatures in terms of the opportunity for input by committees. The challenge now, therefore, is to establish a future process which builds on that which existed in the first mandate and maximises the contribution from elected representatives in the Assembly. The recommendations in this report aim to inform the ongoing DFP Review in this regard, with a view to seeing improved arrangements in place for the 2009 Budget process.<sup>124</sup>

The stage 1 report makes a range of recommendations to the DFP, including suggested improvements to the budget timetable and documentation, as well as the plenary aspects of the budget process. The key recommendations are reproduced here:

1. That a budget process is established which maximises the opportunity for Assembly committees to provide early input. The future process should include a stage similar to the Departmental Position Report/Executive's Position Report stage of the process in the first mandate, which should be timetabled to ensure completion before the Assembly goes into summer recess.

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<sup>123</sup> [Committee for Finance and Personnel: Inquiry into the role of the NI Assembly in scrutinising the Executive's Budget and Expenditure](#) [as 21 October 2009]

<sup>124</sup> [Committee for Finance and Personnel Report on the Inquiry into the Scrutiny of the Northern Ireland Executive's Budget and Expenditure Stage 1: Submission to the Review of the Northern Ireland Executive's Budget Process First Report of Session 2008-09 \(October 2008\)](#) [as 21 October 2009]

2. That a set timetable is agreed to determine when departments will provide information to committees.
3. That there would be benefit, in terms of transparency and scrutiny, from fuller and more standardised information on departments' bids and their outcomes being published as part of the draft Budget process.
4. That, in addition to information on bids for additional resources, there is a case for departments also providing their committees with a critical evaluation of the programmes and resources within their existing baselines, including how these support PfG priorities.
5. That DFP should follow through on the recommendation in the PKF Review of Forecasting and Monitoring, published in June 2007, that the planning and budgeting process should move away from the existing incremental approach and towards a system which provides a transparent link between inputs and outputs.
6. That supporting documents, such as departmental Efficiency Delivery Plans and Investment Delivery Plans, should be published alongside the draft Budget, PfG and ISNI documents and that these should be rigorous in detailing how and when the planned efficiencies and capital investments are to be achieved.
7. That there should be a closer alignment between the PfG and the Budget documents; in particular a more visible linkage between PfG priorities and goals, PSA objectives and the allocations, departmental objectives and spending areas in budgets.
8. That in the interests of transparency, the draft Budget and ISNI documents should include information on the extent to which the overall capital investment will be based on anticipated PFI, the extent to which the capital allocations for individual departments will draw on RRI borrowing, together with accumulated debt under RRI and the projected level of loan charges during 2008-11. The Committee calls for this recommendation to be acted on in respect of future draft Budget and ISNI documents.
9. That consideration should be given to streamlining the plenary aspects of the budget process to avoid repetition of debate, once the Assembly has approved the Budget.
10. That, as part of its Review of the NI Executive Budget Process, DFP also takes on board the conclusions and recommendations contained in the attached responses from the other statutory committees to the questions posed by DFP on the 2007 budget process.

## 6. Comparison of budget scrutiny in the devolved administrations

The following table provides a comparative analysis of the influence of the relevant legislature, and its committees, in the scrutiny of the budget process in each of the devolved administrations of the UK. Westminster is not included due to the complexity of the overlapping stages, which would not allow for accurate comparison.

From the information discussed in Chapters 3 to 5, it can be seen that:

- Unlike Scotland and Northern Ireland, in Wales there is no opportunity for pre-budget scrutiny of expenditure plans. Although scrutiny committees have within their remit the ability to examine expenditure,<sup>125</sup> there is no formal stage for considering the Government's expenditure plans prior to the draft budget.
- Wales has the shortest time available of all the devolved administrations for committee consideration of the draft budget. The scrutiny committees must report to Finance Committee within two weeks of the draft budget being laid, and the Finance Committee must report within four weeks.<sup>126</sup> This is in contrast to the two month period for scrutiny in both Scotland and Northern Ireland.
- The Scottish Finance Committee has greater powers of amendment than its counterparts in Wales and Northern Ireland, as it has the power to propose an alternative budget in its report to Parliament on the draft budget.

A summary of the differences between budget scrutiny in the devolved administrations of the UK are set out in table 4.

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<sup>125</sup> Standing Order 12.1 [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [as 21 October 2009]

<sup>126</sup> For the Draft Budget 2010-11 this will be increased to five weeks under SO27A Temporary amendments to SO 27. [Standing Orders of the National Assembly for Wales \(July 2009\)](#). [at 21 October 2009].



**Table 4: Comparative analysis of budget scrutiny in the devolved administrations of the UK**

	Wales	Scotland	Northern Ireland
<b>Pre-Budget scrutiny</b>		In spending review years the Annual Expenditure Report is published in March. Finance Committee must report to Parliament by June, incorporating the views of subject committees.	Departmental Performance Reports are produced in March. Subject committees report back to departments by April.  Executive Position Report issued in June. Committee for finance and Personnel report to Department of Finance and Personnel by August, incorporating the views of subject committees.
<b>Timing</b>	Draft budget is laid by 7 October. Finance Committee must report to Assembly within 4 weeks, (5 weeks for 2010-11 budget round) incorporating views of scrutiny committees.	Draft budget published in September. Finance Committee must report to Parliament by end November.	Draft budget issued in September. Committee for Finance and Personnel report to Assembly by end of November.
<b>Powers of amendment</b>	Finance Committee can recommend amendments, as can individual Members. However, amendments must not alter the overall amounts proposed in the draft budget.	Finance Committee can propose an alternative budget in their report to Parliament, although cannot increase the overall amount proposed in the draft budget. Individual Members can also propose amendments, but not increase the overall amount proposed.	Finance Committee can recommend amendments, as can individual Members. However, amendments must not alter the overall amounts proposed in the draft budget
	No amendments can be made to the final budget motion. Members may vote to support or oppose the motion.	Only members of Government can propose amendments to the Budget Bill. Parliament may vote to pass or reject the Bill.	Little scope for influence of Budget Bill, figures must reflect that in revised budget. Members may vote to support or oppose the Bill.
<b>Committee involvement</b>	Finance Committee co-ordinates input from other scrutiny committees and incorporates their views in it's report. Following the laying of the draft budget, Scrutiny committees have 2 weeks to report to the Finance Committee.	Finance Committee co-ordinates input from other scrutiny committees and incorporates their views in it's report.	Committee for Finance and Personnel co-ordinates input from other subject committees and incorporates their views in it's report.
<b>Access to independent research support</b>	In- house support from Members' Research Service and Technical Finance Adviser.	In house research support. Also have access to external support where required. There is a standing budget adviser and subject committees may also appoint a budget adviser.	In-house research support.





