Because this response will be formally included as part of the Draft Budget 2005-06, likely to be published in mid-October, it includes reference to information not currently in the public domain, but which will be published between now and then (most significantly the outcome of SR04). Text in square brackets notes where the grammatical tense of the response reflects this future publication date.

Subject Committee Reports

1. The Finance Committee should also discuss the practicalities of managing the process [of the timescale for subject committees to consult and scrutinise the budget] with the Executive in the next stage of the review of the budget process (paragraph 28).

As part of the wider reforms to the Budget process, now is a good time to look again at the timetable for the budget cycle, and we would be happy to discuss these issues with the Committee.

Annual Evaluation Report

2. The Finance Committee agrees that the AER represents further progress in developing the budget process, and will continue to work with the Executive to further refine and develop it (paragraph 35).

We accept that the new-look AER was this year to some extent a trial publication in a new format. In particular, reporting progress against the SR02 targets was hampered by the timing, so that the report could cover only nine months progress of targets covering a three year time-span. We look forward to fine-tuning the format and content with the Committee before the next AER, now likely to be in March 2006.

Spending Plans for 2005-06

3. The Committee recommends to the Executive that there should be joint consideration of the merits of having a more limited process next year, without an AER, and a limited Stage 2 in which only proposals for change are reported in a slimmer Draft Budget document for 2006-07 (paragraph 40).
Our initial reaction is that there is advantage in moving to a clearly differentiated two year cycle, with the AER and longer term strategy covered only in Spending Review years, and with the process in intervening years focussing on the detailed realignment of individual spending programmes. We look forward to discussing this further with the Committee in the autumn.

**Strategy and Priorities**

4. The low priority given to programmes such as the enterprise agencies and higher and further education appears to be inconsistent with the economic strategy and therefore the Committee recommends those programmes which contribute, both in the short term and the long term, to economic development should be identified and assessed for priority in Spending Review 2004 (paragraph 49).

Growing our Economy is the Executive’s top priority for the Spending Review. We [have] set out clearly how this has been taken into account in determining the shape of the overall Spending Review settlement. As we have discussed with the Committee previously, it would be wrong to assess our commitment to economic growth against the narrow range of programmes identified above. Our strategy is clearly set out in the Spending Review document, showing how we have identified what we believe are the priorities in terms of economic growth, including support for basic skills and education, transport and other infrastructure, and driving up the efficiency of the public sector. Not everything can be a priority – and it is vital for us to focus our resources in those areas which we believe are most important to deliver higher economic growth.

5. The Committee recommends that the Executive makes capital spending a budget priority for Spending Review 2004, sets a target to increase the share of the Scottish Budget devoted to capital and considers whether End-Year Flexibility arrangements can be modified to ensure funding is not transferred to resource budgets in this process. In addition, the Committee recommends that the Executive examines procurement mechanisms to ensure these are not slowing the rate of capital expenditure (paragraph 53).

The Executive agrees that increasing investment in infrastructure is central to delivery of its objectives. As the Minister for Finance and Public Services announced on 24th June, we have therefore set a target to increase net investment by at least five per cent a year in real terms over the Spending Review period. EYF arrangements already monitor and control capital and resource DEL separately. Full details of these new arrangements will be set out in the Capital Investment Plan to be published in the autumn.

The Executive continually reviews its procurement mechanisms and is satisfied that its current processes are not having a significant negative effect on the rate of capital expenditure. The timing of different procurement mechanisms is dependent on varying factors including statutory procurement rules and prevailing market conditions which are out-with the direct control of the Executive.
6. The Committee therefore recommends that the housing and regeneration expenditure in the Communities Budget be treated as a priority for additional spending in Spending Review 2004, to advance both the social and economic strategies of the Scottish Executive (paragraph 56).

We note the Committee’s view. We understand that the recommendation is based on the assumption that housing and regeneration spending did not increase significantly over the period 2002-06. On a like for like basis, however, this is not the case. In particular, as the Deputy Minister for Communities explained to the Communities Committee at its meeting on 28 April, borrowing consents relating to council housing - amounting to £180m in 2002-03 - were excluded from the budgets from 2004-05 onwards, because of the introduction of the prudential borrowing regime.

**Performance against targets**

7. The Committee has produced a list of targets which it feels should be considered for elimination for Spending Review 2004 and these are attached as Appendix Two of this report (paragraph 69).

This list has been taken into account in reviewing the Executive’s targets. The majority of the targets which have been identified by the Committee have been removed for Spending Review 2004.

8. The Committee believes that some of the performance targets do not best reflect departmental objectives (or those of the Executive) and appear to have been chosen because they are readily measurable or easily achievable rather than because they are the most appropriate measurement of how effectively objectives are being met (paragraph 70).

All the AER targets [were] looked at as part of the Spending Review process, and a new set [has been published] in the SR04 outcome document. We share the Committee’s views that we need to ensure that we focus on the most appropriate measures of outcomes rather than on that which is most readily measurable. This is likely to be an iterative process over a number of years.

9. Given that the AER contains a clear commitment to economic growth as a top priority, there is a case for having a strategic target for the economy and the Committee would welcome the Executive responding with an indication of how this could be done and how performance could be measured against it. (paragraph 71).

We agree that it is very important to think strategically about economic growth. The Framework for Economic Development in Scotland (FEDS) has, since 2000, provided us with a strategic framework for economic development. We [have recently published] a refreshed version of FEDS to ensure that it continues to be valuable and appropriate.

In conjunction with the refresh of FEDS, A Smart, Successful Scotland (SSS), which provides strategic direction to the Enterprise Networks, is also being refreshed. The Measuring Scotland’s Progress towards a Smart, Successful
Scotland reports, published annually, measure the performance of the economy since SSS was implemented. The report benchmarks Scotland’s economic progress against comparator nations of the OECD. The progress measures contained in the report include an overall indicator measuring GDP per head. For each of the 12 priority areas in SSS there is one lead measure and two supporting measures. The aim is to improve performance and move towards the top quartile for each of the priority areas. The latest progress report against these indicators was published last month, and is available on the Executive’s website at the following location:


So we do think strategically about economic growth and we do have clear targets. But as the Minister for Finance and Public Services has explained, we do not think a specific target here is appropriate for the Spending Review. The Scottish Economy is heavily influenced by economic performance worldwide, and the global economic cycle. It would not be credible to claim specific changes in GDP were directly linked to specific Executive spending in the timescale of a spending review. Of course, we have a responsibility to get the basics right – in terms of infrastructure, business support, skills and education and so on – and these will pay-off over the longer term. And we have set targets for specific improvements in all these areas.

Performance, Productivity and Efficiency

10. The Committee recommends the Executive answer the following questions [to address wider efficiency issues]:

- how does the Executive intend to consider wider aspects of performance management and public sector productivity on a departmental basis beyond the budgetary targets set out in the AER?

- how will these wider issues of public policy, practice and performance targets be reported to the Parliament, eg, will there be a re-emergence of departmental plans?

The launch of the Efficient Government Review, further details of which [were] announced alongside the SR04 outcome [last month], marks a step change in our work on improving productivity in the public sector. We have set out not only a clear strategy to deliver our target of £500m annual recurring cash-releasing savings by 2007-08, but also how we are increasing the productivity of front-line workers across the public sector through workforce reform, better support and increased investment.

This is in addition to the continuing daily work improving productivity and efficiency across every aspect of our business, which Ministers continue to take forward within their portfolios. Progress on improving delivery is discussed with the Minister for Finance and Public Services at regular bilateral meetings. The Executive takes planning and performance management very seriously and is in the process of developing its corporate and departmental
Departmental Plans will be published from January 2005 as part of the publication scheme for FOI, giving further details of the range of this work.

- is there a process and reporting structure for data on productivity in public services in Scotland and follow-up action and how does this differ from data availability and process in the UK?

For public sector productivity as a whole, there is currently no formal data collection and reporting structure in either Scotland or for the UK. The Committee will know that Atkinson Review is currently addressing this issue across the UK. The review team has just published an interim report and, following in-depth consultation with various government departments and the devolved administrations, will be reporting its final recommendations in January 2005. We are working closely with the Atkinson team to ensure that issues specific to Scotland are adequately covered by the review.

But benchmarking across the public sector and with comparable private sector organisations provides an assessment of relative productivity, and this will be central to the ongoing work of the Efficient Government Review. The Sounding Board comprises senior figures from both public and private sectors to allow us to draw on a wide range of experience of delivering the step-change in efficiency we are seeking.

- will the Executive publish its Best Value Reviews and to whom will they be sent?

Departments now undertake improvement planning, including the identification of appropriate packages of work for Best Value review, as part of the annual planning cycle - the programme of Best Value reviews is not centrally managed across Departments. We will consider publication of Best Value reviews from January 2005.

- will the Executive give greater clarity and explanation of how it is taking forward efficiencies in government? (paragraph 81).

The Minister for Finance and Public Services set out details of the Efficient Government Review in his statement to the Parliament on 24th June. As part of our budget plans [announced in September], we will set out our plans to take forward efficiencies in the public sector.

11. The Committee recommends that Best Value Reviews should be reported to the Parliament. Parliament will then need to give thought as to how these studies can best be scrutinised (paragraph 82).

See 10, above.

12. The Committee believes it is incumbent upon the Executive to have at least the same level of transparency over long term trends in spending as is available at a UK level and would ask for an urgent response from the Executive on this matter (paragraph 83).
We have discussed this issue with the Committee on several occasions over the past year. The introduction of Resource Accounting and Budgeting, and the move to RAB Stage 2 in SR02, fundamentally changed the basis on which budgets and accounts are prepared. Fully detailed numbers on the same basis as the plans the Executive [published] for SR04 will therefore only ever be available from 2002-03 on. In the Draft Budget, we will therefore be able to publish fully comparable numbers from 2002-03 to 2007-08. At the Committee’s request, we also undertaken a detailed analysis to provide the best possible information on comparing spending to 2005-06 with that before the introduction of resource accounting, and would be happy to make this public as the Committee see fit.

Of course, we also have access to all the material included in the UK publications for spending in Scotland, most of which is in fact provided by the Executive, and can make this available to the Committee as desired. We would however urge caution in the use of any material comparing pre and post RAB numbers, since these are easy to misinterpret.

**Transparency issues**

13. The Committee recommends that joint discussions take place between the Scottish Executive and the Parliament to secure an appropriate format for the presentation of financial and performance information which resolves the issues [of block grants] for Spending Review 2004 (paragraph 89).

In terms of the presentation of the Local Government revenue budget in the AER, the key funding stream is through AEF, and within that through RSG. The problem is that the RSG is not attributed to individual services: this is a matter for local authorities to decide. We will consider the Committee’s recommendation and see whether we can address it – at least in part – in subsequent budget documents.

The Minister for Health and Community Care and Health Department officials have already met with representatives of the Health and Community Care Committee to discuss ways in which the SE can try and improve the Budget process for both sides. The SE hopes that these discussions will continue and that an agreement which meets the needs of both the Committee and the SE will be reached.

14. The Committee recommends that the presentation of cross-cutting expenditure data should be a subject of discussion between the Parliament and the Scottish Executive prior to the Spending Review (paragraph 92).

Discussions with Committee officials on this matter were held during the Summer recess. We hope that the presentation of cross-cutting information in the SR04 outcome document and *Draft Budget 2005-06* meets the Committee’s requirements, but we are of course happy to discuss ways of further improving how this information is set out.
15. The Committee recommends that there should be a joint review exercise to consider whether there is a need to update the Financial Agreement and financial legislation, in light of recent changes and to consider the prospects for further development of performance information in the budget (paragraph 95).

We look forward to discussing all these issues with the Committee in the coming months.