THE SCOTTISH PARLIAMENT

DRAFT BUDGET 2014/15

BUDGET REPORT BY THE ADVISER TO THE FINANCE COMMITTEE

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INTRODUCTION

1. THE APPROACH OF THE BUDGET ADVISER

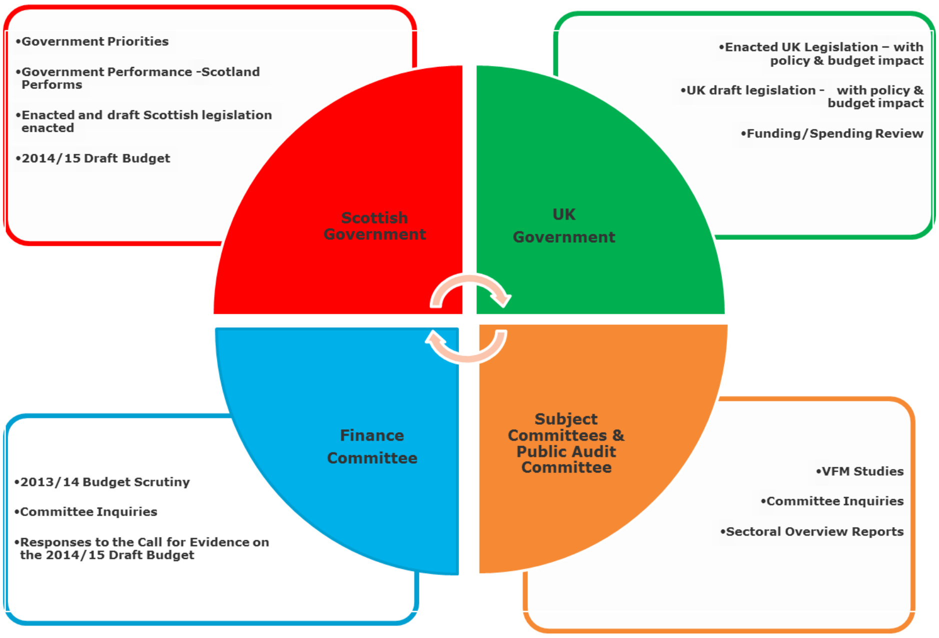
In this my first briefing report to the Finance Committee, I have structured my report around the following 4 fundamental principles of financial scrutiny:

- Affordability – the wider picture of revenue and expenditure and whether they are appropriately balanced;
- Prioritisation – a coherent and justifiable division between sectors and programmes;
- Value for Money – the extent to which public bodies are spending their allocations well and achieving outcomes; and
- Budget Process – integration between public service planning and performance and financial management.

As budget adviser my advice is that optimum Parliamentary scrutiny will be achieved if there is a clear division of the principles to be examined between the Finance and subject committees. I would advise that the focus of the Finance Committee should be on Affordability and on Budget Process. The primary focus of the subject committees would therefore be Prioritisation (or choices made by government) and on Value for Money. The Finance Committee will necessarily be interested in prioritisation, in particular the link between the national performance framework and resource allocation.

Parliamentary committees undertake an ongoing and valuable scrutiny role. On my appointment as adviser, I was interested in ensuring that the valuable output from the Committees was captured and integrated with all other available evidence to provide a robust platform to enable me to advise on the lines of inquiry for the Finance Committee and for the Subject Committees. This will enable a coordinated approach to be taken to Parliament's scrutiny of the budget for 2014/15 and it will also ensure that the four principles of scrutiny are embedded at the heart of the scrutiny process thereby providing Parliament, the Scottish Government and the people of Scotland with the necessary assurance that spending plans have been the subject of a rigorous and structured form of scrutiny.

The basis of this paper and the suggested lines of inquiry follow from my structured review of available evidence, which I have presented diagrammatically as follows:



I have also relied upon the Draft Budget 2014/15 briefing prepared by the Financial Scrutiny Unit and I have liaised with them closely to ensure that I did not duplicate our output but made sure that together our collective roles add value to the scrutiny work by the Committee.

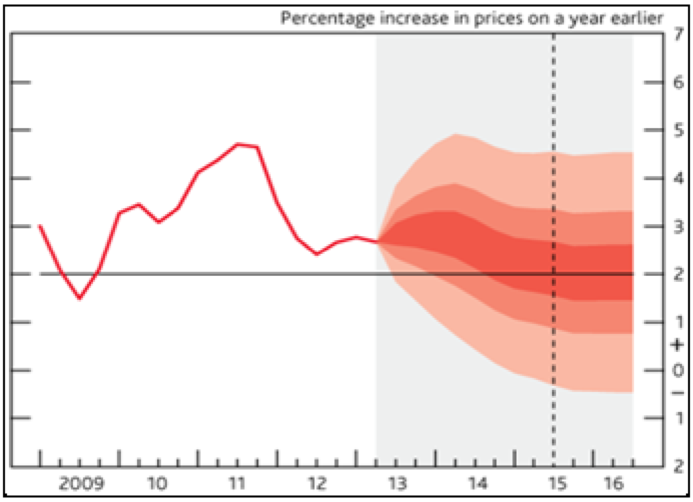
2. UK FISCAL SITUATION & CURRENT ECONOMIC PERFORMANCE

The draft budget makes reference to social wage and public sector pay policy. This indicates an increase of 1% in pay awards for 2014/15 (2% for those earning less than £21,000).

It should be carefully noted that CPI is currently running at 2.8%, with RPI above 3%. Bank of England/HM Treasury projections indicate that inflation will exceed the MPC's 2% target until early 2014 at least (see chart below).

Therefore pay policy reflects an actual reduction in real terms in standard of living costs, with core inflation outweighing any potential pay awards.

With a significant proportion of the Scottish population being employed by the public sector such awards and policies will continue the erosion of household spending capacity and will place further pressure on the potential for growth with the wider economy.



The projections shown in Table 12.01 in the draft budget indicate growth in Business Rate income of 10.4% in 14/15 and a further 7.25% in 15/16. Whilst the Scottish economy has been fairly robust of late and arguably outperforming many areas in the UK (as evidenced in recent GDP data), economic commentary has described the growth targets as ambitious, even when considering the usual annual increase, and will rely to a large degree on continued growth and expansion in the wider economy. I will return to business rates later in my report.

I also note that the Bank of England Forward Guidance has raised its GDP growth forecast to 3% from 2.5%. The forecast for inflation remains largely unchanged at 1.9%. Some economic commentators have taken this to mean that there is an expectation that labour productivity will improve although my understanding again from economic commentators is that this view was not universally held.

3. THE 2014/15 SCOTTISH BUDGET

The budget sets out the Scottish Government's plans to spend more than £35 Billion of public money in Scotland to deliver the Scottish Government's priorities. This is the final budget before the Scotland Act 2012 results in a shift in fiscal responsibility. This is therefore a year in which there is not only a transition to a new fiscal framework but also one in which we can begin to measure the likely impact from how Government proposes to use the new fiscal levers open to it in its spending plans for 2015/16.

The Scottish Government describes its plans for 2015/16 as "…indicative spending plans..." although there is no definition of how indicative spending plans would differ from actual budget figures for 2015/16.

Overall the Scottish Government proposes to spend as follows:

Budget	**2014/15**	**2015/16**
	£M	£M
Departmental Expenditure on Resources	26,640	26,606
Departmental Expenditure on Capital	2,945	3,280
Annually Managed Expenditure	5,823	6,112
Total Proposed Budget	**35,408**	**35,998**

I do not intend to duplicate the expert analysis undertaken by the Financial Scrutiny Unit although I would draw attention to the following in the draft budget:

- there is reference to a 26.6% cut in real terms on capital budgets between 2010/11 and 2015/16. In this report I examine the impact from reduced investment and the link to a possible maintenance backlog;

- capital receipts in both 2014/15 and 2015/16 have a major role in the Scottish Government's investment led recovery. I will report on the risks associated with a reliance on capital receipts;

- Total managed expenditure, the total proposed budget, provides Scotland in cash terms with resources in excess of £35 Billion.

My direction to the Finance Committee is that while comparisons on movement of funding between financial years are appropriate, the scrutiny activity should be on the affordability of Scotland's public services within a £35 Billion funding envelope and on the extent to which public service performance and resource allocation is integrated.

FINANCE COMMITTEE

4. SCRUTINY TEST: AFFORDABILITY

The Scottish Government is mainly concerned with expenditure in that it sets out what the Scottish Government proposes to spend. There must however firstly be revenue to enable that spend to take place. In public sector budgeting I would expect that a balanced budget is set. In simple terms this means that expenditure should be no greater than the revenue source.

This test is concerned therefore with the wider picture of both revenue and expenditure and whether they are appropriately balanced. I will begin with a consideration of revenue and will then move onto expenditure.

Revenue

The primary source of income for the devolved government is the block grant received from the UK government. It's necessary therefore to examine how transparent the decisions of Government are in terms of the determination of the block grant and where any new responsibilities have been assigned to the Scottish Government, whether these have been funded. I will examine the following 4 issues:

1. Transparency of Barnett Consequentials;

2. Movements on block grant 2014/15;

3. Movements on block grant 2015/16; and

4. Transfers of responsibilities from UK Government and the Funding Implications

In addition to the block grant, the Scottish Government has a limited number of levers for raising additional revenue in the present devolved arrangements.

It is necessary therefore to make the governments decisions, in terms of its use of the revenue levers transparent. This means that we require to consider the following:

5. The taxation levers used within the 2014/15 budget (NDRI, Council Tax, SVT);

6. The taxation levers used within the 2015/16 indicative spending plans;

7. Borrowing levers available within the 2014/15 budget and how they have been used;

8. Borrowing levers available within the 2015/16 indicative spending plans and how they have been used;

9. Level of Additional Income by Application of Fees and Charges;

10. Level of European Funding Being Accessed;

11. Level of Capital Investment through Revenue Backed Financing Vehicles;

12. Carry Forward of Resource From the Previous Financial Year; and

13. Reliance on Capital Receipts

My report provides commentary on each of these thirteen areas, together with indicative lines of enquiry for Finance Committee members.

1. Transparency of Barnett Consequentials

The Barnett formula is applied to the budget figures of UK spending departments, and if a UK department benefits from an increase in budget, if the spend is on an area which is devolved, then the Scottish budget should be accordingly increased.

For 2014/15 the Scottish Government is budgeting for consequentials of £865M, an increase of £24M from 2013/14 and almost twice the level of the 2011/12 consequentials.

The Cabinet Secretary in his foreword to the budget and in his statement to Parliament has pledged to pass on the full impact of the Barnett consequentials arising from the change in spending in the UK on the NHS to the NHS revenue budget in Scotland.

Suggested Line of Enquiry

The Committee may wish to:

- Explore whether there is any further revenue adjustment as a result of Barnett consequentials being applied to the 2013/14 budget revision; and

- Establish how robust the Barnett consequentials assumptions are and whether the Scottish Government is challenging for any further Barnett consequential to be applied, which is not reflected in the current Barnett assumptions

2. Movements on Block Grant 2014/15

The briefing by the Financial Scrutiny Unit has identified that block grant (as expressed in the Scottish Departmental Expenditure limits received from HM Treasury) will increase by 0.9%. This of course is an increase in cash terms but when the effect of inflation is factored in it is in fact a reduction in real terms of 1.3%. I note however that DEL capital expenditure will increase by 13.3% in real terms.

Annually managed expenditure will increase in real terms by 1.1% in 2014/15.

Overall, this does mean that the resources available to the Scottish Government will total in excess of £35 Billion.

It is a feature of the UK Government financial management process that block grant continues to be expressed in terms of spending limits. This means that control is effectively exerted upon the management of expenditure rather than on income. My view is that the focus of the budget is primarily upon expenditure and that this in turn means that scrutiny is directed principally towards expenditure. There is a risk that the extent to which the Scottish Government explores further opportunities for income are not scrutinised by the Committee.

Suggested Line of Enquiry

- The Committee may wish to seek evidence that all additional income sources have been fully exploited.

3. Movements on Block Grant 2015/16

The draft budget sets out indicative spending plans for 2015/16 of £27.3 Billion in cash terms. I note that this will be subject to an adjustment to the block grant. I further note that details of the amount to be adjusted are still to be agreed. This is a major area which will fundamentally affect the forward budget assumptions made by the Scottish Government.

At a recent finance committee meeting, the Chief Secretary to the Treasury confirmed that there has been no modification as yet to the block grant calculation and I do not propose to examine this area further at this stage. Clearly however, this will be a significant area of future consideration for both the Scottish Government and the Finance Committee.

For the purpose of the current scrutiny process however it will be necessary for the Committee to understand the extent to which any uncertainty surrounding the current debate on block grant adjustment has impacted upon the Scottish Government's ability to estimate robust forward spending plans.

Suggested Line of Enquiry

The Committee may wish to:

- explore how discussions are progressing in terms of the development of the block grant adjustment mechanism; and
- explore the impact of the Landfill Tax on both the 2015/16 indicative spending plans and also gain assurance that its financial impact on other sectors such as local authorities has been fully assessed.

4. Transfer Of Responsibilities From The UK Government And The Funding Implications

Public Service Network

The Government Secure Extranet is used by public bodies across the UK to exchange personal and sensitive information securely. In order to connect to the GSX there is an accreditation process which sets out the standards which organisations must comply with in order to access the network. The accreditation process changed towards the end of 2012. This reflects the UK government's strategy to implement a Public Services Network (PSN). PSN results in the need to ensure that connected organisations meet the agreed standard to maintain the trust of the infrastructure. The PSN Authority, the Cabinet office body that is responsible for the governance of the PSN, has substantially tightened up the compliance process. There is now a zero tolerance approach to the PSN Code of Connection and failure to comply may result in disconnection from the network.

Public bodies in Scotland will be required to undertake the necessary work to undertake and complete the accreditation process and to invest as appropriate to ensure accreditation. The ultimate sanction for failure is disconnection from GSX, which will in itself carry significant risks for public bodies and for public service delivery. There is no direct budget reference to this matter and while not a Scottish Government initiative, there is a risk that public bodies in Scotland may seek assistance with a subsequent demand on Scottish Government funding

Suggested Line of Enquiry

- The Committee may wish to seek assurance that any liability in respect of PSN has been assessed and accounted for as necessary
- Given this is a UK policy, the committee may wish to explore whether the Scottish Government has discussed the financial implications with the UK Government.

5 The Taxation Levers used within the 2014/15 budget (NDRI, Council Tax, SVT)

Council Tax Freeze

I have extracted the table below from the Financial Scrutiny Unit briefing on the draft budget. The briefing rightly draws attention to the Scottish Government's proposal to provide a further £70M in 2014/15 to freeze the council tax at the previous year's level.

The briefing goes on to note that the freeze is based on 2007/08 levels of council tax, and that the Scottish Government has provided £70M to councils' baseline allocations in each of the six years of the freeze.

The actual cost of the council tax freeze for 2014/15 is £490M. This means that in the period of an eight year freeze that the Scottish Budget will have borne some £2.5 Billion in order to freeze local taxation.

Financial year	Cost per year (£M)
2008/09	70
2009/10	140
2010/11	210
2011/12	280
2012/13	350
2013/14	420
2014/15	490
2015/16	560
Total 2008/09 – 2015/16	**2,520**

Against that background, I have also taken note of the Cabinet Secretary's comment in his letter to the Finance Committee (performance evaluation) which states that:

"the freeze has provided further protection for hard pressed households across Scotland many of whom have been affected by economic downturn and the impact of UK government's welfare reforms".

I also note that the grant funding of £10.53 Billion payable to local authorities will again be conditional on their agreement to a continuation of the council tax freeze.

Non-Domestic Rates (NDRI)

The Financial Scrutiny Unit in its budget briefing draws attention to non-domestic rates as the largest source of revenue within the control of the Scottish Government although this still represents only 7% of the total budgetary requirement. The revenue from NDRI represents a real terms increase of 8.3% during the period 2013/14 until 2014/15. From my examination of the Committee's 2013/14 budget scrutiny work, I note that the Committee queried the potential impact of any significant shortfall in Non-Domestic Rate income.

Non-Domestic Rates Income	**2013-14**	**2014-15**	**2015-16**
NDRI (cash) (£m)	2,435.0	2,688.0	2,883.0
Cash terms annual change (£m)		253.0	195.0
Cash terms annual change (%)		10.4%	7.3%
NDRI (real)	2,435.0	2,637.9	2,779.2
Real terms annual change (£m)		202.9	141.3
Real terms annual change (%)		8.3%	5.4%

The assessment for NDRI incorporates business rates paid by large retailers who sell tobacco and alcohol products is increased by a supplement from 1 April 2012. This is expected to continue until 2015. I further note that a review of business rates is underway although there is no indication of the impact that the review will have on the underlying budget assumptions.

I note the Scottish Government's commentary as follows:

"The Scottish Government will create a new power at the earliest opportunity to allow councils to respond better to local need and create their own localised relief scheme(s). This power will sit alongside the national framework of Scottish Government reliefs, for example the Small Business Bonus Scheme, and all ratepayers will continue to benefit from a uniform national poundage rate".

I have examined the position in England where for English local authorities any discretionary rate relief scheme has to be fully funded at the expense of the Council Tax payer. My understanding is that this has presented difficulty to local authorities in light of the need to identify savings in order to address budget issues.

The action in Scotland is intended as a positive contribution to local growth. If the Scottish localised relief scheme is implemented based on the scheme in England, there is a risk that there could be a strong disincentive for Scottish local authorities to adopt the new power in order to protect the Council Tax payer from increased spend.

Suggested Line of Enquiry

The committee may wish to:

- seek evidence of the outcomes that have been or are being achieved from the continuation of the freeze on local taxation;
- establish what the impact would be on local services should any local authority choose not to agree a council tax freeze;
- gain assurance as to the robust nature of the assumptions made on NDRI for the 2014/15 draft budget;
- The committee may wish to establish what plans are in place for the NDRI supplement post 2015; and
- seek assurance that the review of business rates will not fundamentally affect the underlying budget assumptions for NDRI;

6. The Taxation Levers used within the 2015/16 Indicative Spending Plans

The taxation levers that I have examined as part of the 2014/15 budget would appear to be relevant also to the indicative spending plans for 2015/16 in that the council tax freeze is expected to continue and that the NDRI assumptions have been set out.

In negotiating the reduced block grant with the UK Government to reflect the transfer of taxes as a result of The Scotland Act, care will need to be taken with the data used in the calculation of the reduction in terms of base year, accuracy in terms of relevance to the Scottish element of the current tax collection and clarity on the source of the data for both the Land & Building Tax and the Landfill tax. There is a risk associated with any change that may impact on the level of tax collected and these areas will be the focus of future scrutiny by the Committee.

Consideration also needs to be given to the impact of any changes to Landfill Tax on public bodies. Landfill Tax is a powerful tool to incentivise recycling and other waste disposal alternatives but brings with it a cost burden on local authorities. The overall public sector taxation impact therefore needs to be examined and made transparent.

Suggested Line of Enquiry

- The committee will wish to receive assurance that the necessary tax levers have been fully exploited for 2015/16 and that the indicative spending plans are based on robust assumptions.

7. Borrowing levers available within the 2014/15 budget and how they have been used

The new borrowing powers for the Scottish Government do not come into effect until April 2015. Public sector borrowing will principally be undertaken by those bodies funded by the Scottish Government and who already have the power to borrow money.

From 1 November 2013 local authorities in England will be able to access borrowing below the Public Works Loan Board (PWLB) standard rate for approved projects. This 'Project rate', 40 basis points below normal PWLB rates (0.4%), is restricted to borrowing to support Local Enterprise Partnership strategic local capital investment projects[1].

Scottish local authorities are unable to access the same favourable borrowing in order to support equivalent infrastructure projects in Scotland. I have also referred this matter of local authority access to a discounted PWLB Rate for Infrastructure Projects for the interest of the Local Government and Regeneration Committee

Suggested Line of Enquiry

- The committee will wish to explore why Scottish local authorities have been unable to access this rate

8. Borrowing Levers available within the 2015/16 Indicative Spending Plans and how they have been used.

The Cabinet Secretary has stated that the new capital borrowing powers of up to £296M would be used in 2015/16 to support the investment programme. Borrowing of £296M will of course have to be repaid in subsequent years. I note that the borrowing will be sourced from the National Loans Fund and that:

"it is assumed that repayment will be over 25 years, an interest rate of 5 per cent is charged, and the repayments cover both principal and interest from 2016-17 onwards" (Scottish Government 2013a, p169).

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1 http://www.dmo.gov.uk/documentview.aspx?docname=PWLB/pwlb2013guidance1HMT.pdf&page

The 25 year repayment period is significantly longer than the timeframe outlined in the Scotland Act white paper which stated:

"Borrowing to finance capital expenditure funded by a loan from the NLF will be for a maximum of 10 years. However a longer timeframe may be negotiated, for example 25 years, if this better reflects the lifespan of the associated assets for example, in the case of the Forth Replacement Crossing" (HM Government 2010

Suggested Line of Enquiry

- The committee may wish to seek an explanation of why the maximum timescale of 25 years has been selected for repayment and gain assurance the repayment period is comparable to the asset lives funded by the investment.

9. Level of Additional Income by Application of Fees and Charges

One of the powers available is the application of fees and charges to services which are currently free at the point of use or alternatively, increasing existing charges of services. In my analysis of the budget I did not identify any indication that fees and charges will be levied in order to increase income but I note that it is a government priority to ensure that higher education, NHS prescriptions, eye tests and personal care will remain free.

Suggested Line of Enquiry

The Committee may wish:

- Against the background of expected budget reduction until 2017/18, to explore the financial sustainability of free universal services with delivery bodies.

10. Level of European Funding Being Accessed

European Funds

This is historically an important aspect of enhancement to the Scottish Government budget. Funding which originates from the European Union is referred to throughout the budget including:

- European Structural Funds;
- European Regional Development Fund;
- European Social Development Fund; and
- European Support for Sustainable City Investment.

While these funds and their uses are clearly explained, overall fund value is less than transparent and I have been unable to quantify the total impact on the budget.

I do note that throughout the budget a recurring statement in relation to European funding is that "...it is not possible to budget…" The link between anticipated revenue receivable and its translation into expenditure plans are not clear.

Further, and directly related to European funding, I also identified from my examination of the work of the Public Audit Committee that a provision of £90M had been made in 2010/11 for repayment of European funding. The provision arose because of a breach of procedural requirements in relation to procurement and a weak control environment. I see no indication however of any expectation that these monies will be or have been clawed back from those bodies originally benefitting.

Innovation Partnership Board

A new Innovation Partnership Board has been established with the intention to take forward a joint statement of intent between government, NHS and industry. The board has been asked to oversee a further fund – a new Innovation Fund which will be tested through two initial pilots before roll out. The approach aims to target high value fundraising through philanthropy, European funding and accessing other models of fundraising although it is not clear of the impact upon or relationship with other elements of European funding.

Overall, the extent of European funding and its importance in scale as a revenue source to the Scottish budget is not transparent.

<u>Suggested Line of Enquiry</u>

The Committee may wish to:

- understand the overall value of European funding as a funding source to the Scottish draft budget;
- explore whether the provision of £90M has in fact been paid (or is budgeted to be paid) and what plans are in place for recovery form public bodies;
- understand why it is not possible to budget for certain elements of European funding and what the risks are as a consequence

11. Level of Capital Investment through Revenue Backed Financing Vehicles

The briefing by the Financial Scrutiny Unit describes how the Scottish Government has in recent years attempted to mitigate reductions in DEL capital spend by using private sector investment to deliver infrastructure. The briefing notes that planned investment through NPD financing in 2014-15 is £809m, which is £164m lower than anticipated at last year's draft budget statement.

The Scottish Government has stated that this is due to a combination of reduced project costs and delays to project commencement. The revised investment plans do reduce the overall level of investment in the Scottish economy relative to previous plans.

<u>Suggested Line of Enquiry</u>

- The Committee may wish to explore the impact the revised investment plans will have on the ability to deliver the budget promises;

12. Carry Forward of Resource From the Previous Financial Year

The Budget Exchange Mechanism (BEM) allows the Scottish Government to carry over 0.6% of Resource DEL and 1.5% of Capital DEL from one financial year to the next.

The briefing by the Financial Scrutiny Unit describes how this ability of the Scottish Government to move limited amounts of money from one year to the next means that the actual amounts available for the Scottish Government to allocate within the 2014/15 Draft Budget are higher as a result of the BEM .

The Scottish Government states its intention in the draft budget to make use of the BEM. From my examination of the budget I have been unable to compute the extent to which the BEM will in fact be used and it is therefore not clear what the impact is between each financial year.

Suggested Line of Enquiry

- The Committee may wish to explore what plans are in place to use the BEM and what the impact will be between each financial year;

13. Reliance on Capital Receipts

There is a significant reliance on capital receipts in 2014/15 and 2015/16 for the funding of the Scottish Government's investment led recovery. There is no detail in the draft budget on how this will be achieved and no indication of the risk against this assumption.

It would aid transparency if a breakdown was provided and also the justification for the disposal of public assets to achieve this level of funding versus other options for the utilisation of these assets.

Suggested Line of Enquiry

- The Committee may wish to gain a further understanding of the risks associated with a reliance upon capital receipts;

Expenditure

The test of affordability now turns from revenue to expenditure. Given the limited levers for raising revenue, a devolved government faced with reductions in block grant must focus its attention on how to control and/reduce costs. As I have indicated earlier, the purpose of financial scrutiny is to make the Scottish Government's financial decisions and its assumptions transparent. I have examined the following areas:

1. Legislative Burdens;
2. Savings/efficiencies;
3. Consequences of capital investments;
4. Liabilities which could be a draw on the Scottish budget; and
5. Managing demand through prevention and by changing citizen behaviour

1. Legislative Burdens

Legislation passed by the Scottish Parliament in many cases places a financial burden on the Scottish budget which must be identified and budgeted for. I examined the legislation which had been recently enacted and I also reviewed the existing Bills to determine what the overall impact of legislation would be on the Scottish budget for 2014/15. I considered the following proposed legislation:

- Children and Young People (Scotland) Bill;
- Criminal Justice (Scotland) Bill;
- Public Bodies (Joint Working) (Scotland) Bill;
- Post-16 Education (Scotland) Bill;
- Social Care (Self Directed Support) (Scotland) Bill; and the
- Welfare Reform (Further Provision) (Scotland Bill.

In addition I also examined the Police and Fire Reform (Scotland) Act 2012 to identify the extent to which the projected costs and savings arising from reform were evident in the 2014/15 budget.

I found that the financial memoranda accompanying each Bill was compiled in an inconsistent manner and did not readily lend themselves to identifying the financial consequences of legislation. Overall I was unable to quantify a single figure or aggregate of figures for the Committee of what the financial impact from the proposed legislation would be.

From my examination, I make the following comments on selected Bills:

Children and Young People (Scotland Bill) – The financial memorandum states additional costs of an average of £108m per annum over first 6 years, mainly costs which fall to be borne by local government. The Cabinet Secretary's statement to Parliament identifies an allocation of £190m in the next two years to fund the bill providing an additional 125 hours of early learning and childcare for all 3 and 4 year olds and looked after 2 year olds.

Public Bodies (Joint Working) (Scotland) Bill – This Bill prescribes integrated working between local government and the NHS in the delivery of adult health and social care services. This Bill impacts on almost one third of the existing Scottish budget. The financial memorandum projects transition costs of £34M over a five year period although this differs from the Cabinet Secretary's commitment to assist integration by providing £120M in 2015/16. In addition, the Bill provides for secondary legislation which will enact much of the detail. I have been unable to identify whether the financial consequences of secondary legislation has been fully identified and budgeted for.

Police & Fire Reform (Scotland) Act 2012 – The Financial Memorandum indicated estimates for police and fire reform as £15M in 2014/15 and £51.40M in 2015/16. The Scottish Budget claims that efficiency savings totalling £1.7 Billion will be delivered in the period up until 2018. The presentation of the 2014/15 budget and the indicative figures for 2015/16 do not enable any of these figures to be readily identified in comparison to previous years.

Suggested Line of Enquiry

The Committee may wish to:

- establish if the Scottish Government has quantified the full cost of enacted and proposed legislation for 2014/15 and 2015/16 and if so what is the overall net impact from new legislation on the Scottish budget (whether cost or savings)
- seek assurances that the financial consequences which will arise from future secondary legislation as a result of the Public Bodies (Joint Working) Scotland Bill have been accounted for in full;
- Seek assurances that the financial costs and savings associated with police and fire reform are factored into the budget with an explanation of what element of £1.7 Billion savings relates to 2014/15.

2. Savings/Efficiencies

The draft budget specifies that efficiency savings of 3% were delivered on what it describes as central spending in 2011/12 and that good progress has been made in 2012/13. What is clear is that savings from efficiencies remain central to the delivery of a balanced budget and thereby ensuring that the necessary level of resources are available for service delivery.

The McLelland Review of IT which was part of the efficient government programme set out a range of savings which could be generated from more efficient use of IT. The review estimated that from transformation, significant savings of up to £1 Billion could be generated over a four period commencing in 2012/13.

It is not clear whether the suggested savings by the McClelland Review have been accounted for in the 2014/15 draft budget.

Closely related are the quoted savings delivered by the Scottish Futures Trust (SFT) of £503M.

For all of these estimates, from my examination of the budget and from the accompanying equality statement, again I have been unable to see how these significant savings have impacted upon the budget.
The draft budget refers to the completion of the redesign of community justice services and that this lays the foundations for a more effective system which brings with it the potential to deliver significant cost savings. The scale of these potential savings are not identified and it's unclear whether these savings have been accounted for within the 2014/15 budget.

Revenue Scotland

From my analysis of the local government budget for 2013/14, the following are the costs associated with 32 local authorities collecting council tax and non-domestic rates (£36.1 m cost of local tax collection including NDRI, a further £28.3m on council tax and NDRI valuation and £35.2m and £11.8m for the administration of benefits. This totals £111.4M, a notable cost given that Scotland is in the process of developing a central tax management and collection organisation.

Suggested Line of Enquiry

The Committee will wish to:

- understand how the proposed savings from efficiency of 3%, savings from the SFT , savings from the McClelland review and the redesign of community justice services have been factored into the budget;
- explore the extent to which the creation of Revenue Scotland has the capacity to lead to efficiencies in the cost of local tax collection;

3. Consequences of Capital Investment

The draft budget refers to a 26.6% cut in real terms on capital budgets between 2010/11 and 2015/16. Whilst new borrowing plans from 2015/16 will allow some scope for extra borrowing to finance increased capital investment, the budget does not cover the potential risk of maintenance backlogs across all of the sectors and the potential impact this may have on service budgets and service delivery.

Such cuts in investment over the last few years place potential risks on revenue budgets going forward, especially the longer any new potential re-investment is deferred.

Suggested Line of Enquiry

- The Committee will wish to explore what assumptions have been made for backlog maintenance and what the impact will be on future capital investment

4. Liabilities Which Could Be A Draw On The Scottish Budget

Guarantees

The budget sets out planned spending of £169.4M in 2014/15 to assist in the delivery of the Commonwealth Games in Glasgow. I also examined the most recently available Scottish Government Consolidated Financial Statements (financial year 2011/12). The financial statements provide an insight into aspects of Government business not necessarily set out in the budget. One of these areas is where guarantees have been given by government which could result in future expenditure. The Scottish Government has given a guarantee to meet any potential economic shortfall of the Organising Committee arising from the preparation for and hosting of the 2014 Commonwealth Games. The guarantee includes the provision of funding for the capital projects which are necessary to deliver the games. The guarantee is recorded as "unquantifiable" in the notes to the consolidated accounts. In a generally positive report by Audit Scotland in May 2013 on progress on planning for the delivery of the Commonwealth Games, it stated that:

"..the Organising Committee had identified pressures on a small number of individual lines in the budgets, with risks of overspends of around £32.5 million across those areas. The Organising Committee is continuing to manage these risks and reduce costs where possible…."

In addition, to the Commonwealth Games guarantee the financial statements disclose a further twelve guarantees which are also recorded as unquantifiable. I also note that a guarantee is facilitating Homes for Scotland MI New Homes Mortgage Indemnity Scheme.

Financial Transactions

The briefing by the Financial Scrutiny Unit identifies £182M in 2014-15 for 'financial transactions'. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector and will be required to make repayments to HM Treasury in respect of these financial transactions. The Scottish Government has decided to provide equity/loan finance support in a range of portfolio areas including housing. The plans for individual portfolios suggest that money will need to be carried forward from 2013-14 in order to meet the commitments.

Revenue Backed Financing for Capital Investment

In 2014-15, the Scottish Government plans to progress a range of projects using NPD financing. NPD investment is a form of revenue funding which means that the Scottish Government does not pay the upfront construction costs, but is committed to making annual repayments to the contractor, typically over the course of 25-30 years.

Impairment Costs Associated with IT Projects

From my examination of the work of the Public Audit Committee I noted a developing theme associated with impairment costs arising from the procurement of IT projects. In three organisations there was concern over costs associated with the delivery of IT projects:

- Registers of Scotland - large impairment of abandoned IT projects and concern over delivery of ongoing IT projects;

- Crown Office and Procurator Fiscal - Issue regarding the acceptable level of performance of a major new IT system;

- Disclosure Scotland -large impairment of IT project (partly due to non-availability of funding to complete following escalating estimated costs).

These cases occurred some time ago but were brought to the notice of the Public Audit Committee recently. Impairment generally reflects the decline in value of an asset and falls to be a cost. While these specific issues probably do not impact directly upon the 2014/15 budget I have drawn the Committee's attention to these matters because public money will have been invested but with only limited return. In 2014/15 the draft budget estimates that approximately £2.5 Billion (DEL capital) will be invested an increase 13.3% in real terms. It is essential that the maximum value for money is obtained for this investment.

<u>Suggested Line of Enquiry</u>

The Committee may wish to:

- seek evidence on how unquantifiable guarantees have been accounted for in the budget and what the consequence will be if the guarantees have to be met, i.e. how will the guarantees be financed?

- seek assurance that a risk assessment which identifies the extreme parameter of liability was undertaken prior to providing a guarantee for the Commonwealth Games;

- explore the robust nature of the calculations to meet the forward liability to HM Treasury for financial transactions;

- gain assurance on the management of maintenance backlog.

- seek assurance that capital investment will be supported by rigorous business cases and supported by project and asset management planning

5. Managing Demand Through Prevention and by Changing Citizen Behaviour

Prevention

The Finance Committee's inquiry on early intervention found a need for disinvestment to make room for preventative spend with limited evidence that change funding was of the scale necessary for reform. Prevention continues to be an ongoing theme throughout the 2014/15 draft budget

The Joint Improvement Team Change Plan 2012/13 Mid-Year Report states that – "partnerships were asked to consider the extent to which local change fund activity has changed the spend profile of the total resource envelope for older people and whether this has resulted in any disinvestment. The responses were characterised by descriptions of interventions funded by change fund and not on the wider programme budget for older people. 12 partnerships described examples of marginal disinvestment, with 8 providing examples of disinvestment in care home placement budgets and 5 examples of disinvestment resulting from bed closures in community hospitals or geriatric speciality beds."

The Cabinet Secretary's letter to the Finance Committee (performance evaluation report) shows three areas within early intervention where performance is improving:

- % of children in deprivation;

- % of local authorities receiving positive reports for children services;

- % of P1 children with no obvious tooth decay.

My conclusion is that there is evidence of improvement. For the purposes of budget scrutiny however it is still unclear whether improvements have been able to unlock resources and the cost associated with the achievement of improvement is not clear

Changing Citizen Behaviour

There is international evidence that service demand can be managed in alternative ways as well as by management of prevention. When the local authority of Les Sorinieres in Western France announced a pilot scheme to charge residents for each garbage bin they put out for collection, it simultaneously began to track waste volume throughout the city and give householders data on the amount of waste they were generating.

Waste dropped by more than 20% and the volume of recycled waste rose. The plan to charge residents was not implemented, as it was deemed no longer necessary and the change in behaviours persisted. [2] Demand therefore was reduced by the prospect of charging.

Suggested Line of Enquiry

The Committee may wish to:

- explore what evidence there is that resources are being unlocked as a result of change funding;

- explore evidence of the costs linked to improved performance thereby gaining an understanding of whether value for money can be assessed by the subject committees. For example –

    what is the cost of the dental programmes in relation to% of P1 with no obvious tooth decay?

- explore the extent to which the budget has been compiled on a basis which incorporates other means of demand management.

SCRUTINY TEST: BUDGET PROCESSES

This test is concerned with examining the integration between public service planning and performance and financial management.

Transparency

The briefing by the Financial Scrutiny Unit notes that the figures for 2013-14 shown in the Draft Budget document do not reflect any changes announced at Stage 3 of the 2013-14 Budget Bill or subsequently because these have not yet been agreed by Parliament.

This means that some changes do not reflect the actual position, for example changes to the Housing and College budgets between 2013-14 and 2014-15 appear higher than is the case once revisions are taken into account.

Consistency

A summary of the revenue budget of each local authority for 2013/14 budgets has been incorporated in the Scottish Government draft budget. This has not been replicated for other major parts of the public sector such as health bodies.

From our structured review of draft legislation both at a UK and Scottish Parliamentary levels we were unable to comprehensively compute a single figure (or aggregate of

[2] How to make a city great McKinsey & Company

figure) to determine what the combined 2014/15 budget impact of legislation could be – largely due to the inconsistent approach to financial memorandum. What this means is that it is difficult to scrutinise the extent to which the Scottish Government budget process has captured all of the financial impacts from the legislative programme.

Budget Strategy

Supporting Transformation - The transformation of public services is a clear commitment and throughout the draft budget that commitment is emphasised. The approach to date has been to invest in transformation by incurring costs at the point of change and during transition with savings projected to materialise at a later date. The structural transformation of the Scottish police and fire service and the college sector have been financed in this way. The integration of adult health and social care is being supported in a different way, through the change fund mechanism which is creating a bridge to support redesign. In addition, the Scottish Government has also used change funding to encourage a move from reactive spend to preventative spend.

My work in other territories of the UK has enabled me to look at how other Governments are approaching the financing of public service reform. I provide two examples as follows:

- England – a scheme will be introduced where local authorities will be allowed to borrow to finance the one-off costs associated with service redesign;

- Wales – The Welsh Government is proposing to introduce a budget flexibility mechanism which would allow NHS bodies to ensure that they break even over a three year period. At present health bodies in Wales (similar to Scottish Health Boards) have no power to hold reserves or to manage any flexibility between financial years.

Protection of Budgets

Protecting Capital - The briefing by the Financial Scrutiny Unit shows the real terms changes in DEL Resource and DEL Capital between 2013-14 and 2014-15. The Scottish Government say they intend to transfer £165m from Resource to Capital in 2014-15, however, this has not been reflected in the total DEL Resource and DEL Capital budget numbers

I have taken particular note of the following extract from page 8 of the briefing:

"The reallocation of £165m from DEL Resource to DEL Capital appears from the document to be largely coming from within the Health Budget (Scottish Government 2013a, p26) where there is a planned £120m 'provision for Transfer to Health Capital'; there is also a £41.8m resource to capital transfer within the Enterprise bodies budget (p48). These reallocations have not been reflected in the budget document totals which means that, if delivered, DEL Resource is overstated by £165m and DEL Capital is understated by the same amount."

Protection of Prevention - The Early Action Task Force's second report, *The Deciding Time: Prevent today or pay tomorrow*[3] follows on from the first and suggested the following:

> "Treat early action as an investment - protect early action spending in the same way as capital investment, ensuring it could not be raided for the purposes of

[3] Community Links, Early Action Task Force, *The Deciding Time: Prevent today or pay tomorrow*, November 2012 [accessed 1 May 2013]

managing short-term demands and releasing the potential for significant funding to be moved into preventative services."

Suggested Line of Enquiry

The Committee may wish to:

- explore why stage 3 changes in the 2013/14 budget comparative figures have not been incorporated;
- explore how greater consistency could be achieved within financial memorandum
- to understand the different approaches being taken to support transformation and whether approaches being taken by other governments are relevant for Scotland
- seek an explanation on the potential overstatement of DEL resource by some £165M

Budgeting Methodology

SPICE's briefing on Scotland's national performance framework reflects on the information presented in Scotland Performs noting that is predominantly about assessing performance and does not make an explicit link to the level of expenditure used in relation to performance.

There is also no link between the Government‵s spending plans, as set out in spending reviews and draft budgets, and the intended impact spending will have on future performance. Throughout the third session of the Parliament, the Finance Committee regularly raised this issue in its annual reports on the draft budget (Finance Committee 2010).

A strict definition of performance budgeting would be a form of budgeting that relates funds allocated to measurable results. These results are measured in the form of outputs and/or outcomes. Resources can be related to results either in a direct or indirect manner. Although progress has been mixed across different jurisdictions, some countries are moving towards a system of linking expenditure to performance, including in the State of Virginia, USA, the system used as the model for Scotland Performs. Virginia is currently in the final stages of deploying a new, more integrated technology platform for performance-based budgeting and strategic planning.

The Performance Budgeting Project website states that the goal of this project is to replace the variety of systems, databases, spreadsheets, and documents that currently support strategic planning and budgeting in the Commonwealth. The new fully integrated, web-based system will streamline existing 18 COVA strategic planning and budgeting functionality and provide modernized features.‖ (Commonwealth of Virginia 2012b)

Budgeting for Prevention

The Joint Improvement Plan Change Plan 2012/13 Mid-Year Report refers to NHS Health Scotland and the JIT are collaborating to test the utility of contribution analysis techniques in 3 partnerships to help demonstrate the contribution of upstream preventative interventions towards the long goals of reshaping care.

The Cabinet Secretary's letter to finance committee (performance evaluation) – indicates that a recent analysis of the impact of the early years change fund through community planning partnerships indicates that there is significantly more spent on early years than is captured by the change fund. This indicates that the change fund has been successful in levering in additional resources to drive the move to prevention and early intervention

Community Links is a London-based community charity, who have formed an Early Action Task Force,[4]' The first report of the Early Action Task Force was launched in the House of Lords in November 2011.[5] This suggested a number of interventions, in particular in relation to classifying early action expenditure including:

- Consider special treatment of early action spending within DEL, to recognise it as investment. For example it might be treated like capital spending, with costs spread across the period in which savings are realised or 'ring fenced' within DEL to protect it from short term cuts.

- 2nd report recommends Incentives and sanctions to break down silos and require and reward longer term planning - financial incentives, including responsibility charging, early action funds, profit sharing, premiums and, as the Welsh Government are now considering, a duty on all public bodies to think of the future.

Suggested Line of Enquiry

The Committee will wish to:

- To explore whether government has any plans to move to a more substantive approach to linking performance and resource

- To examine the current approach to budgeting for prevention and whether there is any merit in adapting the present system

SCRUTINY TEST: PRIORITISATION

Part of the role of parliamentary scrutiny is to test whether the pledges and commitments made by any government are then reflected in the choices it makes in the allocation of resource within its budget setting process.

Does the budget support the governments "purpose"?

The Cabinet Secretary has stated that the 2014/15 draft budget was a budget:

- focused on delivering investment, protecting household incomes and creating jobs;

- that values our public services, the people that work for them and what they achieve;

[4] Community Links, Early Action Task Force [accessed 1 May 2013]
[5] Community Links, Early Action Task Force, *The Triple Dividend: Thriving Lives, costing less, contributing more*, November 2011 [accessed 1 May 2013]

- that provides opportunities for our young people and security of care for our older people;

- that demonstrates the benefits of decisions being made here, by those who care most about the future of Scotland.

Is there a coherent and justifiable division between sectors and programmes?

Within the Financial Scrutiny Unit Briefing produced by SPICE for the draft budget, there is an analysis of the real terms increases and decreases across the budget. The committee may wish to explore whether the movements between years and across sectors and programmes is justifiable and coherent.

Is current performance informing the choices about where to allocate resource?

The lack of linkage of the budget to the National Performance Framework emerged as a key issue during the 13/14 budget scrutiny exercise and witness evidence has been sought during the 2014/15 process

I note that the committee plans to take further evidence on the National Performance Framework.

Suggested Line of Enquiry

The Committee may wish to:

- The Committee may wish to challenge the extent to which each of these statements by the Cabinet Secretary can be represented by budget evidence.

- Examine whether the budget allocations across sectors and programmes is justifiable and coherent.

- Seek evidence of the extent to which Scotland Performs is embedded into the budget building process of the Scottish Government; and

- seek evidence of how Scotland Performs shapes the corporate planning and budget building process in public bodies.

SUBJECT COMMITTEES

7. SCRUTINY TESTS: PRIORITISATION AND VFM

This section of my paper is aimed specifically at the subject committees who I anticipate will focus upon prioritisation (the budget choices that have been made) and on value for money (VFM). I would envisage that scrutiny by these committees will assess the extent to which there is evidence of:

- Prioritisation – that there is a coherent and justifiable division between sectors and programmes; and that there is

- Value for Money – the extent to which public bodies are spending their allocations well and achieving outcomes.

I would encourage each committee to consider the level 2 and level 3 budget information provided alongside the actual budget report. This information provides a breakdown of where government has chosen to allocate its resource and it is important to test whether the choices made across the portfolio represent a coherent and justifiable division.

I have identified some specific affordability and budget process issues, which committee's may wish to consider and subject committee's may wish, of course, to pick up some of the areas I have directed to the finance committee. I have restricted my briefing in this area to short bullets points. Where necessary, l can expand upon the issues during my briefing to representatives of the subject committees.

There are two matters which are relevant to all subject committees.

Firstly, financial transactions – this is funding used to support equity/loan schemes beyond the public sector. Repayments will be made over time to HM Treasury. The Scottish Government has elected to provide support in a range of portfolio areas. I understand that funding will be required to be carried forward from 2013/14 meet the commitments. I would anticipate that each subject committee will examine the impact of this matter and report to the Finance Committee.

Secondly, prevention continues to be an on-going theme throughout the 2014/15 draft budget. Within the finance committee inquiry into preventative spending the Committee recommended that future budget documents should include an assessment under each portfolio heading of the progress being made towards a more preventative approach. Each committee may wish to consider examining the progress being made within its portfolio.

8 LOCAL GOVERNMENT & REGENERATION COMMITTEE

Affordability: Expenditure

- The Budget document includes an allocation of £50.7m to expand preschool provision resulting from the Children and Young People Bill and £30m to facilitate capital work associated with the bill. The committee may wish to consider the sufficiency of this allocation to cover anticipated costs
- Landfill Tax - this_tax will not be implemented until 1 April 2015. The accompanying financial memorandum indicates no significant additional costs on local authorities.
- Welfare Reform / Social Welfare Fund -_UK welfare reform legislation is expected to have a continuing high degree of impact on the Scottish public and public services, particularly at a local level. The committee may wish to examine the cost pressures recognised in the 14/15 draft budget, the sustainability of this funding in future years and whether any tapering of support in future in future years is envisaged.

- The committee may wish to consider any longer-term plans for the continuance of the Scottish Government's support for the Council Tax Reduction Scheme, particularly in respect of the projected level of support required in future years
- Local Authority Access to Discounted PWLB Rate for Infrastructure Projects. From 1 November 2013 local authorities in England will be able to access borrowing below the PWLB standard rate for approved projects. This 'Project rate', 40 basis points below normal PWLB rates (0.4%), is restricted to borrowing to support Local Enterprise Partnership strategic local capital investment projects[6]. Scottish local authorities are unable to access the same favourable borrowing in order to support equivalent infrastructure projects in Scotland
- The finance committee report on Public Services Reform stated that the scale of public services reform is not of the scale or pace required.

Affordability: Revenue

- Fees and charges - No indication of the extent to which fees and charges have been utilised by local government to manage service demand or to meet national performance requirements;

- Tax Incremental Financing - The role of tax incremental financing is set out in the draft budget with the estimate that as a result of £300M public sector investment that £1.5 Billion long-term investment by the private sector will be generated. The public purse will benefit from the additional NDRI generated. In simple terms, TIF requires forward investment on the expectation that later revenues will be raised. This is not without risk. For example if additional NDRI is not realised it is possible that the longer term committed costs fall to be borne by the public purse. It must be recognised that TIF projects are in their early stages and there is therefore no marker of success. The two key risks that have been identified are:

    - Business movement from one area to another to the benefit of one area and the detriment of the other:

    - Uncertainty with regard to the sustainability of the future additional Business Rate income stream

Value for Money

- The committee has previously suggested that area regeneration should not just focus on capital projects, but should also consider social and economic interventions. It was also considered that community-led initiatives would potentially yield improved outcomes. The committee may wish to examine these areas in the 14/15 draft budget
- Outcome Measurement for Regeneration **-** The lack of tangible outcome measures has previously been noted by the committee, with a request for improvements in this respect
- Performance is worsening in 5 areas (as per Cabinet Secretary letter to finance committee

[6] http://www.dmo.gov.uk/documentview.aspx?docname=PWLB/pwlb2013guidance1HMT.pdf&page

- **Percentage of people who are very or fairly satisfied with local public services.** The finance committee report on public service reform concluded that the "The public sector must change its approach to those to whom it supplies services, treat them all as customers, endeavouring to meet their needs and above all respect and listen to them".

- **Percentage of people who rate their neighbourhood as a very good place to live**

- **Number of individuals with problem drug use –** the committee may wish to seek evidence of the effectiveness of preventative programmes

- **Annual new housing supply**

- **Scotland's carbon footprint – The Budget document states that "**Scottish councils have demonstrated consistent commitment and political leadership on climate change following the signing of Scotland's Climate Change Declaration in 2007-08. Local authorities will continue to work towards the delivery of the new statutory obligations of the Climate Change (Scotland) Act 2009 and to provide leadership to wider civic society as Scotland moves to a low carbon economy. Carbon reduction programmes and activities often require upfront expenditure. However, they should generally result in savings for local government, for example through reduced energy bills, some with relatively short pay back periods. Reducing energy expenditure not only supports the climate change agenda, but can help local government during a period of significantly constrained public spending". Committee may wish to try and establish how much local government is spending on carbon reduction programmes.

- 'Input' commitment's contained with the Scottish Government budget for this portfolio are to maintain teacher numbers in line with pupil numbers, and secure places for all probationers who require one under the teacher induction scheme, work with NHS. Letter from Cabinet Secretary indicates that this commitment has been met. The committee may wish to explore how this prescription in terms of inputs, contributes to specific outputs and outcomes.

Prioritisation

- Investment in transport infrastructure has the potential to boost growth but consideration should be given to the revenue maintenance impact on the relevant authorities. The increase in road capacity will result in an additional maintenance burden for Transport Scotland in terms of motorways and trunk roads and the 32 local authorities when it comes to the local road network. The committee may wish to explore whether this additional burden has been fully reflected when allocating resource to transport authorities.

- The committee may wish to explore whether consideration has been given to the service growth impacts on local government across Scotland as a result of the 5 year target for the delivery of 30,000 additional new affordable homes. The associated growth in the council tax base is an obvious benefit in terms of local funding, but new housing brings new service burdens eg waste management, care needs.

9 **Referendum (Scotland) Bill Committee**

Prioritisation

- Referendum Bill and delivery of the Referendum on 18th September 2014 expected to cost of the order of £13.7M

10 **Welfare Reform Committee**

Prioritisation

- Welfare Reform / Social Welfare Fund - UK welfare reform legislation is expected to have a continuing high degree of impact on the Scottish public and public services, particularly at a local level.

- Support for the Council Tax Reduction Scheme.

11 **Economy, Energy & Tourism Committee**

Affordability: Revenue

- The committee has previously queried the robustness and reliability of external contributions, particularly relating to private sector input into broadband rollout and fuel poverty initiatives. The committee may wish to assess the assumptions made for the 14/15 draft budget.

Prioritisation

- Encouragement and Assessment of Preventative Spend the Committee has previously encouraged the adoption of preventative spend and queried how the Scottish Government intends to evaluate the impact of preventative spend initiatives. The Committee may wish to review the plans for preventative spends by specific bodies in the 2014/15 draft budget.

- Sustainable Employment: The committee has previously welcomed Scottish Government plans to enhance sustainable employment. The committee has requested an impact assessment on this aspect and also noted previous concerns on addressing specific skills gaps for relevant industry sectors, gender inequality and under-employment. The committee may wish to review how the 14/15 draft budget supports these areas.

- Request for Updated RPP to be Available before Draft Budget The committee has previously requested that new versions of the Low Carbon 'Report on Proposals and Policies' (RPP) should be available prior to the draft budget to inform allocation decisions.

Value for Money

- Fiscal Multipliers for Capital Projects The committee has previously recommended that the 'fiscal multiplier' effect of each capital project should be assessed. The committee may wish to review whether this has been undertaken in supporting the determination of the 14/15 draft budget.

- Efficiency Savings by Strategic Forum Partners The committee has previously requested further detail on the efficiency savings planned by each forum partner.

The committee may wish to consider whether the 14/15 draft budget is based on achievable savings and any potential impact on service provision.

- Linkage to National Performance Framework The committee has previously recommended that the draft budget should be more transparently aligned with the NPF and that NPF targets should be regularly updated to remain relevant.

12 Education & Culture Committee

Affordability: Revenue

- The committee has previously requested additional information on longer-term Scottish Government plans for Higher Education and possible implementation of a service charge for EU students.

Affordability: Expenditure

- In relation to FE reform the committee has previously commented on the release and use of efficiencies released from regionalisation. The Budget document states - £50m per year from 14/15 from having merged colleges. The committee may wish to explore progress towards these savings

Budget Process

- In relation to FE reform the committee has previously commented on the need to simplify the funding methodology for colleges

Value for Money

- The committee has previously requested examples of how preventative spend can prevent poor outcomes for children.

- The committee has previously stated that it considers there is scope for simplification of the service provision landscape for taking children into care

- The committee has previously requested the Scottish Government to indicate how it measures outcomes for looked after children. This information may assist in determining the value for money of different services for looked after children.

Prioritisation

- The committee has previously advocated that forwards projections of the total spend on protecting children and the future balance of care are undertaken. Particular concern on ensuring consistency was noted.

- The committee has previously noted that the implementation of Outcome Agreements should address data problems in the further education environment. The committee may wish to assess the extent to which the 14/15 draft budget aligns with outcome agreements and will enhance the scrutiny process

- The committee has previously requested that the Scottish Government indicate how services for looked after children at home are being supported.

- In relation to FE reform the committee has previously commented on: the linkage between SDS targets and SFC targets

13 Equal Opportunities Committee

Prioritisation

- Equal Pay in Local - The committee has previously requested that the Scottish Government ensures that local authorities can, and will, meet their equal pay obligations.

- Consideration of Spending Decisions on Female Employment - The committee has previously noted that changing public sector service and spending decisions may disproportionately affect women.

- Investment in Childcare **-** The committee has previously requested that investment in childcare be prioritised to promote economic growth.

Budget Process

- Transparency on Investment in Childcare **-** The committee has previously requested that investment in childcare be transparently demonstrated in budget documents

- The committee has previously requested that the Scottish Government consider the development of a holistic EIA, rather than individual service by service EIAs. This would assist in determining the aggregate effect of budget proposals. Additionally the committee has suggested that EIAs should be developed early in the budget process, so that any issues arising can be addressed during budget development.

14 European & External Relations Committee

Prioritisation

- Accessing European Funding The committee has previously noted the importance of EU funding although monies may not be specifically identified in the draft budget since they are external in origin. Additionally, the committee has previously supported successfully securing EU funding and the Public Audit Committee has noted that there is a risk of repayment of grant being required where terms and conditions are not met.

15 Health & Sport Committee

Affordability: Expenditure

- Cost Pressures The committee has previously recommended that the Scottish Government provide a detailed analysis of cost pressures affecting health services. The SPICE paper for NHS board scrutiny has identified inconsistency in the identification and estimation of specific pressures by boards.

Budget Process

- Managing the cost of change and transformation The committee may wish to note that the National Assembly for Wales is considering introducing a bill allowing NHS Boards to break even over 3 years to support longer-term financial planning.

Prioritisation

- Is revenue and expenditure appropriately balanced - Some boards were noted as placing significant reliance on non-recurring funding (up to 10% of total funding for some boards). The committee may wish to examine the extent of Board reliance on non-recurring funding, and the robustness of proposed budgets and funding for NHS Boards.

- A Public Audit Committee report on Health Inequalities noted that GP distribution did not directly correlate to the apparent needs of deprived areas

Value for Money

- The committee has previously requested more detail on resource transfers between health boards and local authorities

- The committee has previously noted difficulty in scrutinising the health budget given that at the draft budget stage, only the board allocations are available and not the underlying detailed spending plans.

- Evidencing the Success of Health Initiatives The Public Audit Committee noted that "The Committee considers that progress needs to be made in the effective performance assessment of specific initiatives." The committee may wish to examine the extent to which it can be evidenced that specific initiatives in the 14/15 draft budget provide sufficient value for money.

16 Infrastructure & Capital Investment Committee

Affordability

- The committee has requested that the Scottish Government review the social housing sector financial capacity to invest in new homes. The committee may wish to examine the assumptions underlying the anticipated level of new social housing provision.

Prioritisation

- Re-instatement of Housing Capital Budget The committee has previously noted that the housing capital budget suffered a higher than average reduction, and requested that the budget be re-instated to reflect an 'average' cut.

- Low Carbon Scotland Strategy The committee has previously requested a strategic approach across all policies, realism in the setting of targets and the identification of funding to support initiatives.

- Investment in transport infrastructure has the potential to boost growth but consideration should be given to the revenue maintenance impact on the relevant authorities. The increase in road capacity will result in an additional maintenance burden for Transport Scotland in terms of motorways and trunk roads and the 32 local authorities when it comes to the local road network. The committee may wish to explore whether this additional burden has been fully reflected when allocating resource to transport authorities.

Value for Money

- Evidencing Glasgow-Edinburgh Rail Improvement Benefits The committee has previously requested more evidence to demonstrate the benefits of improvements to Edinburgh-Glasgow rail travel (EGIP) given a longer-term plan for high speed rail implementation.

- Queensferry (Forth) Crossing Operation The committee has previously considered the intention for a contractor to be appointed to operate the new Forth road bridges.

17 Justice Committee

Affordability: Expenditure

- The committee has previously noted that there is a significant backlog of court maintenance costs and requested an indication of actions being undertaken to mitigate and manage the situation.

Value for Money

- Courts Rationalisation The committee has previously noted that court rationalisation plans should consider access to justice and local needs, and requested details of rationalisation plans and supporting evidence. The committee also recommended that the court service should consider a variety of options such as shared building use, ICT use and process centralisation to achieve and assist in efficiencies.

- Evidence of Efficiencies from Reform The committee has previously noted that it will continue to monitor the release of efficiency savings due to the reform process, requesting detailed future financial plans.

- Managing Demand through prevention. The committee has previously requested more details on the potential for public-social partnerships, under the change fund arrangements to reduce reoffending

- Police Efficient Use of Officer Time The committee has previously expressed concern at the potential risk that losses of civilian staff posts could result in the 'backfilling' of support jobs by police officers.

Prioritisation

- Capacity and Services for Women Prisoners. The committee has previously welcomed initiatives by the Scottish Government regarding women prisoners, and has requested that necessary funds are secured to address the needs of women prisoners

18 Rural Affairs, Climate Change & Environment Committee

Affordability: Revenue

- EU Funding Streams Replacement **-** The committee has previously requested that contingency plans should exist to ensure that the 2014/15 budget spending capacity on rural development and fisheries is not adversely affected by the implementation of replacement EU funding streams.

Prioritisation

- Rollout of Broadband to Rural Areas The committee has previously stated that it regards the rollout of broadband to rural areas as important for local economic growth, requesting that actions be taken to progress this.

- Climate Change Fund The committee has previously suggested that the Climate change fund should support projects which combine both economic and environmental sustainability, with some projects potentially generating income for applicants.