22 February 2016

Dear Kenneth

I welcomed the opportunity to debate the Finance Committee’s report on the 2016-17 Draft Budget alongside Stage 1 of the Budget Bill. Following on from the initial comments I offered in that debate and my evidence to the Finance Committee on 10 February, I now enclose the Scottish Government’s formal written response. I believe Revenue Scotland and the Scottish Futures Trust will be writing to you separately to respond directly to recommendations relevant to each of them.

JOHN SWINNEY
The Scottish Government welcomes the Committee’s report. Responses to each of the Committee’s recommendations are presented below.

SCOTTISH RATE OF INCOME TAX (SRIT)

27. The Committee supports the Scottish Government’s proposal to set SRIT at 10p for 2016-17. However, the Committee also notes some of the innovative proposals from witnesses for tax changes and recommends the need for a wide ranging debate across Scotland on taxation policy once the new financial powers arising from the Smith Commission are introduced. The Committee will consider this as part of its legacy paper.

We welcome the Committee’s support for our proposal to set SRIT at 10p for 2016-17.

As noted in the Draft Budget we will set out our intentions for the use of further income tax powers before the end of this Parliament, subject to the agreement of a new fiscal framework. This will provide the opportunity to debate our plans and those of other parties during the election period, and again in the period between the formation of the new Government in May and the publication and scrutiny of the 2017-18 Draft Budget.

43. The Committee recommends that it is essential that future decisions on taxation policy are fully informed by relevant behavioural analysis.

The consideration of behaviour affects is an integral component of any examination of future income tax policy, and one which officials are already incorporating into their analysis.

53. The Committee asks the Scottish Government to confirm that it is content that sufficient work has been carried out by HMRC to ensure a high level of public awareness of SRIT when it is introduced on 6 April.

The Scottish Government is content that the communication activities undertaken, and planned, by HMRC to raise public awareness of the Scottish rate of income tax are proportionate to the requirements to introduce and comply with the tax.

At the end of November, the National Audit Office reported on the adequacy of HMRC’s preparations for the administration of SRIT and concluded that HMRC has developed a clear plan and strategy for communicating about SRIT to different stakeholders1. As part of this strategy, in December, HMRC sent around 2.5 million notification letters to those they anticipate will be Scottish taxpayers, advising them of SRIT’s introduction. This process was supported by additional information and guidance provided online and to the media.

HMRC is continuing to provide advice, information and guidance through direct engagement with relevant business and taxpayer representative groups. In addition it is undertaking paid for marketing activity this month which will further support the introduction of SRIT. This activity includes adverts in the national Scottish press and editorial features across Scottish commercial radio stations focused on the need for taxpayers to update HMRC when they move address.

56. The Committee asks the Scottish Government what discussions it has had with HMRC to ensure that reliefs for taxpayers who make donations under the gift aid scheme or who make pension contributions will continue to apply once SRIT is introduced.

Income tax reliefs remain reserved to the UK Government and HMRC are confident that charities and Scottish taxpayers will continue to receive the correct amounts of tax relief once the Scottish rate is introduced

The decision to levy the Gift Aid relief at the basic UK rate, regardless of Scottish Taxpayer status, was taken after detailed consultation with the charity sector to ensure continued operation of Gift Aid without charities having the additional burden of having to identify Scottish taxpayers. It has always been the case that this arrangement would be reviewed if there were to be a considerable divergence in rates and HMRC are committed to re-engaging with the charity sector, if and when this is the case.

In respect of Gift Aid, Scottish taxpayers who pay tax at the higher or additional rates will be able to claim further relief on their donations by reference to the Scottish rates.

Preparations for implementing pensions relief at source form part of HMRC’s overall implementation programme for SRIT and remain on track. Scottish Government officials take part in the process as part of both the HMRC project and programme boards. HMRC are engaging fully with the private pensions industry which has been given until 2018/19 to ensure their systems can identify Scottish taxpayers.

65. The Committee has consistently raised concerns about the impact of relative population growth on the indexation of the block grant adjustment for income tax. The Committee, therefore, welcomes that the DFM now supports indexed deduction per capita and recommends that this approach is agreed in the fiscal framework.

The Scottish Government believe that it is very important to take account of population factors in a block grant adjustment mechanism. This is a belief supported by many external commentators, and is one that the Scottish Government are expressing in the fiscal framework negotiations. We welcome the Committee’s support on this matter.
LAND AND BUILDINGS TRANSACTION TAX

78. The Committee supports the Scottish Government's proposal to maintain the current rates and bands for residential LBTT.

We welcome the Committee’s support for our proposal to maintain rates and bands of residential LBTT at existing levels.

79. The Committee recommends that the Scottish Government conducts a review of the operation of the first year of LBTT once outturn figures are available for the full year and that this is made public.

The Scottish Government intends to review the operation of residential LBTT after the first full year of operation and will update Parliament on the outcome of that review in the 2017-18 Draft Budget. We note that the Written Agreement on the budget process commits us to including “a commentary on outturn figures for the devolved taxes for the most recent year, including any variance between outturn and forecasts”.

86. The Scottish Government has agreed with the Committee's recommendation in its Stage 1 report on the SFC Bill that it should respond within 4 weeks to the recommendations of the SFC in its report on the Draft Budget. The Committee will consider this response when it is published.

As the Deputy First Minister confirmed to the Committee on 13 January 2016, the Scottish Government is committed to taking action to address recommendations made by the Scottish Fiscal Commission in order to ensure that our devolved tax forecasting approaches are as robust as possible.

In addition, as confirmed in the Deputy First Minister’s response to the Committee’s Stage 1 report on the Scottish Fiscal Commission Bill, we “welcome the Committee’s recommendation that the Scottish Government should in future provide a written response to recommendations made by the Commission within four weeks of the publication of the Draft Budget” and we will seek to publish such an action plan within four working weeks from the Draft Budget 2017-18 onwards. The Scottish Government is in the process of finalising an action plan to address the recommendations made in the Commission’s report on the 2016-17 Draft Budget and will submit this to the Committee in due course.

87. The Committee asks why the available outturn data for 2015-16 adjusted for forestalling was not used in producing the residential LBTT forecasts for 2016-17.

88. The Committee was also told by the SFC in oral evidence that the forecasters used the last complete year of outturn data for the LBTT forecasts. The Committee asks why this does not appear to be mentioned in either the Scottish Government's methodology paper or the SFC's report.
At the time of producing the forecasts for Draft Budget 2016-17, data was only available for 7 months of 2015-16. It was not possible to robustly assess at that time whether, and to what extent, any differences between outturn and projections were due to (a) forestalling effects, (b) overall housing market conditions, or (c) seasonal effects being different to what had been forecast.

The Scottish Government’s forecasting methodology paper states that “outturn data from Registers of Scotland is used to provide the baseline inputs to the model and the model was originally tested with historical Registers of Scotland data”.

These baseline inputs from Registers of Scotland relate to prices and transactions for the overall housing market for fiscal years prior to the introduction of LBTT, and should be distinguished from the monthly LBTT revenue outturns published by Revenue Scotland as from the current fiscal year. Table 6 and Table 7 of the Scottish Government’s methodology paper provide the price and transactions increases for the last complete year of outturn data (2014-15), which were used as inputs to the forecasts for the 2016-17 Draft Budget.

89. The Committee recommends that in future draft budgets the Scottish Government should provide an updated draft forecast for the current financial year as well as future years and should provide an explanation for any changes to its forecasts year on year. So, revised forecasts for 2016-17 to 2020-21 should be included in Draft Budget 2017-18 including the reasons for any change to the forecasts.

The Scottish Government intends to publish updated five year forecasts in the Draft Budget on a rolling basis, and provide a reconciliation of movements from the forecast produced for a particular year for the previous Draft Budget.

98. The Committee notes that it is clear that there has been an element of forestalling as a consequence of the introduction of residential LBTT in April 2015. The Committee recommends that in keeping with the principle of no detriment, it is essential that there is an adjustment to the block grant to account for the impact of forestalling. It is also essential that this is done transparently and both the total amount of the adjustment and the workings which underpin it are published.

[The Scottish Government’s response to this point is on page 7 of this document].

107. The Committee recommended in its Stage 1 report on the Scottish Fiscal Commission Bill that there needs to be much greater clarity regarding the role of the Commission and how it works in practice. This is again evident from the evidence we have received from the SFC on the Draft Budget. In particular, there is a need to clarify whether the SFC is asked to agree the forecasting methodology prior to the production of the official forecasts and what happens if it does not agree.
The Scottish Fiscal Commission does not agree the Scottish Government forecasting methodology – it independently assesses and challenges the Scottish Government forecasting methodologies. The Scottish Government brought forward an amendment to the Scottish Fiscal Commission Bill at Stage 2 to deliver greater transparency in the interactions between the Scottish Government and the Scottish Fiscal Commission.

108. The Committee recommends that the Scottish Government needs to carry out an analysis of the initial behavioural response to LBTT once a full year of outturn data is available. In particular, there is a need to assess whether there is a longer-term behavioural response to the new tax at the higher end of the market.

The Deputy First Minister confirmed to the Committee on 13 January 2016 that the Scottish Government is “committed to further development work on behavioural responses”. We note that we have already incorporated behavioural responses into our revenue forecast for the proposed LBTT supplement, details of which are provided in our devolved taxes forecasting methodology paper and in the financial memorandum accompanying the Land and Buildings Transaction Tax Amendment (Scotland) Bill.3

109. The Committee also recommends that this work should help to inform whether there is a need to review the rates and bands for residential LBTT and should also inform future revenue forecasts.

Decisions on LBTT rates and bands will be taken as part of future budget-setting processes.

113. As noted above the Committee recommends that there should be a review of the first year of LBTT and this should include the impact of the non-residential rates and bands on the commercial property market.

As for recommendation 79, the Scottish Government intends to review the operation of LBTT after the first full year of operation and will update Parliament on the outcome of that review in the 2017-18 Draft Budget.

119. The Committee asks that the Scottish Government provides a breakdown of the reasons why the non-residential LBTT forecast for 2015-16 has increased from £146m in last year’s draft budget to £210m in this year’s draft budget.

We did not produce updated LBTT forecasts for 2015-16 in the 2016-17 Draft Budget. However, intermediate forecasts for 2015-16 were used as an input when forecasting revenues for 2016-17, and these are published in the Scottish Fiscal

Commission’s Report on Draft Budget 2016-17, along with the following caveat: “It should be noted that the revised forecast for tax yields in 2015-16 are a by-product of forecasting yields in 2016-17, and do not constitute an official revision in the Scottish Government’s forecast of tax yields in 2015-16” (Footnote 12, page 32).

Since the forecasting methodology only uses data from an entire fiscal year as an input, the difference between this intermediate forecast and the official forecast in Draft Budget 2015-16 is not the result of the part-year data for 2015-16. Instead, it is due to (a) outturn data for all of 2014-15 now being available, (b) revisions to OBR assumptions about annual growth in UK commercial property prices and volumes, and (c) a methodological improvement in the calculation of the three-year base, following challenge by the Scottish Fiscal Commission (with the first two years of outturn data now being inflated by a commercial property price index).

120. The Committee also asks the Scottish Government why the part-year outturn figures were not used to inform the forecasts.

Non-residential LBTT revenues are extremely volatile from month to month. Over the 9 months to December 2015, the largest monthly outturn was nearly £24 million (or more than 200%) higher than the smallest monthly outturn. Since a full year of monthly revenue outturns is not yet available, and given the volatility in the monthly outturns so far, the use of part-year outturn figures was not considered to be sufficiently robust to form part of the forecast methodology for 2016-17. However, as recommended by the Scottish Fiscal Commission in their Report on Draft Budget 2016-17 (at para 3.50), we will further consider whether part-year outturn data for 2016-17 should be used in the next forecasting round.

125. The Committee recommends that the Scottish Government develops a Scottish model for non-residential LBTT rather than relying on the UK data.

The development of such a model is dependent on the existence of relevant time series data of sufficient quality and duration to use as inputs. The Scottish Government will therefore continue to fully explore alternative data sources which might become available in order to assess whether they can be used to improve the non-residential forecasts.

SCOTTISH LANDFILL TAX (SLFT)

132. The Committee asks to what extent the household waste indicator in the NPF is used to inform the forecast for SLfT and whether the 1.9% increase has been factored into the forecasts for 2016-17 to 2021-22.

The forecast is based on higher-level aggregated waste data from SEPA and (increasingly) in-year tax receipt data from Revenue Scotland. The waste data include landfill waste from all sources with households being just one source.
133. The Committee asks why part-year outturn data was used to refine the forecast for SLfT but not for LBTT.

Before April 2015, the forecast levels of waste volumes which attract tax - and related taxes paid - relied heavily on outturn waste data from 2013. The Revenue Scotland landfill tax data allowed us to both base the forecast on more up to date data and to test some of the underlying assumptions in the model. In the case of the tax it allowed us to use for the first time outturn data on Scottish Landfill Tax.

**BLOCK GRANT ADJUSTMENT – DEVOLVED TAXES**

139. The Committee has consistently raised concerns about the lack of transparency in relation to the adjustments to the block grant arising from the devolution of further financial powers. The Committee believes that full transparency is an essential element in securing public confidence in the process. In particular in providing reassurance that the no detriment principle is being delivered.

140. The Committee, therefore, recommends that a detailed explanation is provided in the fiscal framework in relation to the adjustment to the block grant for the devolved taxes for both 2016-17 and beyond. This must include the workings used to arrive at the overall figures.

[98, 139 and 140 together]

In evidence to the Finance Committee on 13 January the Deputy First Minister stated “I cannot present to the committee a scientific analysis of how we got £600 million, but a range of numbers were discussed and we agreed that figure to enable me to make progress in setting the budget with a definitive block grant adjustment for the financial year. It can be reviewed once the financial year is complete.” The negotiated deal delivers budget certainty for 2016-17.

Once finalised the fiscal framework will be made available for the Committee and the Parliament to apply the appropriate scrutiny.

152. The Committee invites Revenue Scotland to respond to the above issues raised by witnesses.

Noted.

**NON-DOMESTIC RATES INCOME**

162. The Committee is concerned about the lack of transparency in how the NDRI forecast is calculated despite the role of the SFC. It is unclear why the DFM is ―exploring the very same questions‖ as the Committee in relation to why the forecast is falling after the official forecast has been published. The Committee’s view is that these questions should have been addressed prior to the publication of the forecast and should have been assessed by the SFC.

163. The Committee recommends that the methodology paper produced by the Scottish Government for the devolved taxes should also include NDRI. This
should include details of the change in buoyancy and how the forecast is calculated. The SFC should also provide an assessment of the buoyancy forecast and how it is calculated.

[162 and 163]

Scottish Government notes the Committee’s view about the lack of transparency in how the NDRI forecast is calculated. The two economic factors central to the NDRI forecasts are a) the assumed inflation rate (which guides the poundage to be set for the year in question) and b) expected buoyancy.

The Scottish Fiscal Commission assesses the reasonableness of forecasts of the economic determinants of NDRI. The assumed rate of inflation is taken from forecasts provided by the Office for Budget Responsibility (OBR). The Scottish Government provides its buoyancy forecast to the Commission for review. The Commission in its report on the Draft Budget 2016-17 confirmed that in its view the SG forecasts are reasonable, and also provided an in depth discussion of NDR buoyancy.

Scottish Government analysts have carried out extensive work on NDR buoyancy factors and trends in the past year, and this work has been discussed with the Commission at a number of challenge meetings. Issues discussed with the Commission are described in pages 48 to 61 of the Commission’s report on the Draft Budget 2016-17. As the report states, the long-run historical average of annual NDR buoyancy data underpins the forecast for 2016-17. The report also describes a cyclical adjustment that was applied to the buoyancy forecast for the first time in respect of 2016-17. This adjustment had the effect of reducing the forecast. We therefore note that joint work between the Commission and SG has enhanced the sensitivity of the NDR buoyancy forecast, and that the Commission’s report provides commentary on the underlying forecasting methodology and on recent enhancements.

The Scottish Government would be happy to provide further information, including on the wider NDR forecast methodology (embracing for example appeals loss, policy changes, etc) if the Finance Committee would find that helpful. These wider factors are not classed as economic determinants of NDR forecasts and so are outside the Commission’s remit.

The Committee raised the question of why the NDR forecast for 2016-17 is below that for 2015-16 despite inflation, economic growth and policy changes (e.g. in terms of the large business supplement). Economic and other factors have combined to reduce NDR income for prior years. These factors, when carried forward, reduce the forecasts for 2016-17 below previous estimates. The factors include the cap on poundage increases for both 2013-14 and 2014-15, which were restricted to 2% – below September RPI inflation for both years. Since 2014-15, forecast inflation is now significantly lower than during the previous round of forecasting. The OBR September 2015 RPI inflation forecast reduced from 3.3% (March 2014 forecast) to 0.8% (December 2015). This reduction has had a significant effect on NDRI forecasts. In addition, buoyancy forecasts have been reduced below previous-estimated levels as a result of reappraisal of factors and enhancement to modelling
approaches, as explained above. Earlier modelling assumed a buoyancy level of 1.55% for 2014-15, 1.25% for 2015-16 and 1.25% for 2016-17. The observed buoyancy level for 2014-15 was 0.8%. This has had a consequential effect in lowering the tax base estimates for 2015-16 and 2016-17, with a knock-on impact on NDRI forecasts.

BORROWING

171. The Committee asks that it is provided with details of the terms of the borrowing once agreed with HM Treasury.

The Scottish Government will provide details of the borrowing arrangements when these are finalised.

SCOTTISH FUTURES TRUST

181. The Committee welcomes the positive responses to its call for evidence on the SFT. In particular, there was an emphasis in the responses on the positive impact of the SFT’s collaborative approach. The SFT has also helped to improve the efficiency and effectiveness of infrastructure investment and use in Scotland leading to better value for money. The Committee also notes the areas that have been identified by witnesses where improvements could be made and recommends the Scottish Futures Trust gives consideration to these suggestions.

SFT will respond directly to the Committee in due course.

189. The Committee is concerned about the potential impact of ESA10 on the DEL capital budget and notes that £398m has been allocated from this budget in 2016-17 to cover NPD projects. The Committee recommends the need for transparency on the impact of NPD projects being classified as public sector on the Scottish Government’s infrastructure investment plan. In particular, where this means other capital investment projects being delayed or postponed.

No specific capital projects were delayed or postponed in order to cover the impact of NPD projects. The total amount of Capital DEL available to the Scottish Government in 2016-17 was only confirmed in the November 2015 UK spending review with a consequent impact on the level of advance commitments that had been made within the future programme. The NPD projects in question are infrastructure priorities and the Government’s primary objective is to ensure they are delivered, because of their economic and health benefits.

190. The Committee asks whether the impact of ESA10 has been considered as part of the discussions on borrowing in the negotiations on the fiscal framework.

The main issue the Government has been facing is the effect of classification changes on projects that are already well advanced in their development and procurement. Looking further forward, the Scottish Government – as with
governments in other EU Member States – will consider future investment strategies in the light of the evolving landscape around classification and other factors such as, in Scotland’s case, the possibility of enhanced capital borrowing powers. Scottish Ministers will consider all the levers at their disposal for enhancing infrastructure investment as a driver of growth and the case for using different models of investment for a range of purposes within the programme.

LONG-TERM INVESTMENT COMMITMENTS

196. The Committee reiterates its view that the SFC should have a role in monitoring the Scottish Government’s long-term investment commitments which currently amount to over £1 billion annually.

As previously indicated, the Scottish Government does not consider that the monitoring of long term investment commitments as currently set out in Annex A of the Draft Budget falls within the remit of the SFC. Scottish Government is considering a broader role for the SFC in assessing any wider prudential borrowing regime that might be applied in follow up to the Smith Commission proposals.

197. The Committee asks that the Scottish Government provides the underlying data behind Figure 1 in Annex A of the Draft Budget as previously agreed.

It remains the case that there is some commercial sensitivity regarding elements of the underlying data behind Figure 1 in the Draft Budget and it has therefore not been provided in the form suggested in the Committee’s report.

PRIORITISATION

203. The Committee asks to what extent the Scottish Government is content that Scotland’s public bodies are adopting a priority-based budgeting approach and to provide some examples of where this is working well and some examples where it is not working as well as it could be.

All public bodies need to ensure their spending plans align with the National Performance Framework. As the Finance Committee has recognised, the Scotland Performs update provides a useful resource for improving the scrutiny of spending in relation to outcomes. We will strive for year on year improvement in performance as shown by the indicators included in the update. This approach is underpinned by the spending decisions taken at the national level, which seek to ensure maximum benefit is derived for the people of Scotland from the totality of the resource at our disposal.
BROADBAND

210. The Committee notes from its visit to Pitlochry and to other rural communities in previous years that broadband connectivity remains a significant issue. The Committee supports the commitment of the Scottish Government to delivering superfast broadband across Scotland and emphasises the need for BT to provide clarity in respect of the localities which will not be covered by its programme in order to ensure that alternative, community based solutions can be implemented without further delay.

Completing the roll out with BT to reach 95% and deliver a solution to the remaining 5% remains a top priority. The Scottish Government will continue to engage with BT to help identify what steps are required to deliver on our commitment.

HOUSING

225. The Committee asks the Scottish Government to clarify how the additional £90m for affordable housing is being funded and to provide details on the reduction in resources available for help to buy.

Affordable Housing:
The increase of £90 million in the Affordable Housing Supply Programme (AHSP) was based on the following:

<table>
<thead>
<tr>
<th>AHSP</th>
<th>2015-16 (£m)</th>
<th>2016-17 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main capital grant budget</td>
<td>268</td>
<td>365</td>
</tr>
<tr>
<td>TMDF</td>
<td>104</td>
<td>96</td>
</tr>
<tr>
<td>Sub-total AHSP capital</td>
<td>372</td>
<td>461</td>
</tr>
<tr>
<td>Financial Transactions (est)</td>
<td>92</td>
<td>96</td>
</tr>
<tr>
<td>Total AHSP</td>
<td>464</td>
<td>557</td>
</tr>
</tbody>
</table>

£365 million of capital funding is to be directly invested in the AHSP, chiefly for new social housing, along with the TMDF budget. The increase in this line will support the pledged increase in Affordable Supply. Two important changes to also note in 2016/17 are:

1) we will no longer have to pay £11.6 million to stock transfer landlords because those contractual commitments have expired; and
2) we are doubling the level of receipts that will be reinvested in the programme.

Help To Buy:

£305 million has been made available in the Help to Buy schemes to date and £195 million will be made available over the next three years.

The Scottish Government has changed its maximum contribution from 20% to 15% for the new scheme to reflect market conditions. A lower equity stake will ensure that as many people as possible can access support through the scheme. The Help to Buy Scheme over three years (2013/14–2015/16) has to date supported over 7800
home owners worth over £1.4 billion in sales. The new scheme will help up to a further 7500 households over 3 years.

The total level of Financial Transactions (FT) budget made available to the Scottish Government by the UK Government peaked in 2015-16 and is now set to fall substantially over the next spending review period. Over three quarters of the entire FT budget in 2016-17 will be allocated to Housing programmes.

LOCAL GOVERNMENT

232. The Committee asks the Scottish Government to clarify how the total estimated expenditure for local government of £15,800m has been arrived at.

This is set out in the following table.

Gross Revenue Expenditure Financing –sources of income 2016/17 (*estimated) (£m)

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue Grant for SG</td>
<td>6,834</td>
</tr>
<tr>
<td>*Council tax</td>
<td>2,100</td>
</tr>
<tr>
<td>Non Domestic Rates</td>
<td>2,769</td>
</tr>
<tr>
<td>*Other Income from Specific grants</td>
<td>4,100</td>
</tr>
<tr>
<td>Fees and Charges applied</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,803</strong></td>
</tr>
<tr>
<td>*Rounded</td>
<td>15,800</td>
</tr>
</tbody>
</table>

233. The Committee also asks the Scottish Government to clarify what additional resources have been allocated to local government for 2016-17 in relation to the additional services they will be required to provide resulting from recent legislation such as the Carers (Scotland) Bill.

The Carers (Scotland) Bill is expected to commence in 2017-18. Resources to support implementation of the Bill are set out in the Financial Memorandum. The Minister for Sport, Health Improvement and Mental Health has confirmed to the Finance Committee that the Scottish Government expects to use the maximum costs set out in the Financial Memorandum for planning purposes. These are £19.40 million in 2017-18 rising to £88.52 million in 2021-22 and on a recurring basis thereafter.

Scottish Government’s expectation is that local authorities should continue to use their existing resources in 2016-17 for supporting carers, including building capacity. The Scottish Government is also making available in 2016-17 £8 million for support to carers, including for NHS Board Carer Information Strategies, involving local authorities, and for the voluntary sector short breaks fund.
FUEL POVERTY/ENERGY EFFICIENCY

237. This has not been provided and the EET Committee has reiterated the need for such an analysis. The Committee agrees with this recommendation and asks the Scottish Government to explain why it has not been provided.

Modelling a full cost analysis of achieving the statutory target [for reducing fuel poverty] would be very complex. The major driver of fuel poverty is fuel prices and much of the increase in fuel poverty since 2002 can be explained by above inflation increases in fuel bills over which the Scottish Government has no control. Other factors such as trends in income and household composition are also beyond the control of the Scottish Government. Households can move in and out of fuel poverty as fuel prices and incomes fluctuate, and as households move between houses with different energy efficiency ratings. It is therefore unlikely that any research would be able to provide certainty on the investment required to eradicate fuel poverty.

In the light of these uncertainties, the Scottish Government’s approach is to make best use of its existing powers and budgets to tackle fuel poverty where we can. In particular, our energy efficiency programmes and policies have contributed to the long-term trend for more energy efficient houses. We will also consider how any additional powers under the Scotland Bill can best be used to contribute to mitigating fuel poverty.

POLICE REFORM

248. The Committee is concerned that £21m which was supposed to be spent on reform related activities in 2014-15 has been aggregated with normal operational expenditure. Despite this a further £55m has been allocated for police reform in 2016-17. The Committee asks the Scottish Government what assurances it has been given by the SPA and Police Scotland that this additional funding will be used for police reform and not for normal operational expenditure. The Committee believes that it is essential that there is complete transparency in relation to how this £55m and the funding allocated for 2015-16 is spent.

For 2014-15 a budget of up to £70m was made available to support police reform. The majority of this funding was available to SPA/PSoS to meet the costs of activities which contribute to and generate efficiencies and savings, and also for non-recoverable VAT. At the beginning of the year the Scottish Government indicated the level of provisional reform support and SPA presented proposals to allocate this funding. Over the year SPA’s proposals were finalised and agreed with Scottish Government, expenditure was committed, and plans progressed for any remaining balance for final full spend of the budget. Scottish Government received a full breakdown of the projects funded by the 2014-15 reform allocation, totalling £67.5m. The expenditure falls into four broad categories: VAT, voluntary redundancy costs, ICT investment and £21m of ‘Other transitional reform’ costs. The £21m comprises a wide range of transitional reform costs which would not have been incurred prior to police reform – including the costs of local reform projects, a national DNA administration unit, modernisation teams and standardising national training. The remaining £2.5m relates to the costs and activities, outwith those being undertaken...
by SPA/PSoS, which relate and impact on police reform and required to be funded from the police reform budget.

For 2015-16, this process for the allocation and draw down of the reform budget is repeated, with Scottish Government being informed of the current position regarding plans and expenditure committed. For next year’s £55m reform funding, as previously, Scottish Government will inform SPA of reform support and SPA will be asked to submitted their proposals, although around half of the funding will need to be allocated to meet VAT costs.

249. The Committee is also concerned about the failure of the SPA and Police Scotland to develop a long-term financial strategy and recommends that the Government needs to ensure that this is produced as a matter of urgency in line with the AGS’s recommendations.

The current Chair’s objectives for 2015-16 specifically refer to ensuring a longer term financial strategy is in place and on track. SG is currently working with SPA colleagues to ensure the strategy is in place by the end of March 2016.

250. The Committee also notes that there are a number of issues in relation to the audit of the SPA’s accounts and that the PA Committee is taking evidence on these issues.

Paul Johnston, Director General Learning and Justice provided evidence at the PA Committee alongside Andrew Flanagan (SPA chair), John Foley (SPA CEO) and Phil Gormley (Chief Constable of Scotland) on 10th February 2016.

VALUE FOR MONEY

261. The Committee welcomes the provision of additional information within the Scotland Performs update and believes that this is a useful resource for the parliament in improving the scrutiny of spending on outcomes.

We welcome the Committee’s endorsement of the usefulness of the additional performance information. Year-on-year we have been striving to improve the performance information and it is helpful to receive feedback that we are moving in the right direction. If the Parliament has any further specific feedback on the performance information, this would be welcome.

262. The Committee would welcome an update from the Scottish Government on its work in improving the strategic policy framework so that there are clearer links to the NPF in policy and priority setting documents.

Both Scotland’s Economic Strategy and the Programme for Government now make more explicit links with the NPF.

Scotland’s Economic Strategy reaffirms the Scottish Government’s Purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The NPF is referenced throughout the strategy. This includes confirmation that the NPF is central to monitoring
progress against the objectives set out in the strategy and that the NPF is being updated to reflect the strategy.

The Programme for Government sets out the policies, actions and legislation that will deliver the Purpose including our commitment to implement the Community Empowerment (Scotland) Act 2015, Part 1 National Outcomes. Now that the outcomes approach to government is on a statutory footing, there is a duty on Scottish Ministers to consult on, develop and publish a set of national outcomes for Scotland; to regularly and publicly report on progress towards these outcomes; and review them at least every five years.

The Act will ensure that the outcomes approach to policy making continues and becomes embedded across all areas. However, the approach is already having an impact on policy making. The prevention agenda is an integral part of how National Outcomes are delivered. The Justice Strategy, the Housing and Regeneration Outcomes Framework and the Active Scotland Outcomes Framework, for example, all have their own outcomes and measures which are linked back to the NPF.

Scotland is one of the first countries to publically sign up to the United Nations Sustainable Development Goals. The NPF will be one of the measures used to monitor Scotland’s progress towards these goals.

263. The Committee asks the Scottish Government what action it is taking to ensure that Scotland’s public bodies are spending their allocations well and achieving outcomes. In particular, in what ways does the Scottish Government examine the contribution which public bodies are making towards the national outcomes within the NPF.

The Scottish Government makes clear its expectation that all public bodies should align their spending plans with the National Performance Framework. The Scotland Performs update provides a useful resource for improving the scrutiny of spending in relation to outcomes. The contribution of individual public bodies to the NPF is examined by their Boards and by the Scottish Government through the sponsorship arrangements in place. Our partnership approach with public bodies is a strategic one, based on openness, trust, respect and mutual support.

264. The Committee welcomes the work which some of the subject committees have carried out in scrutinising the outcomes delivered by the public bodies within their respective remits and recommends that this should be done systematically as part of the budget process or wider financial scrutiny. In particular, Scotland’s public bodies must be held to account for the value for money which they are providing and be able to demonstrate how the spending decisions which they are making have an impact on outcomes.

We welcome the work that the subject committees have carried out in scrutinising the outcomes delivered by public bodies. We agree that public bodies must be held to account for the value for money which they are providing and the impact that they are making on outcomes. We will continue to emphasise the role of Accountable Officers in ensuring that resources are used economically, efficiently and effectively and the role of Boards in holding Executives to account in this area.
A DECISIVE SHIFT TO PREVENTION

284. The Committee has agreed to hold a short inquiry and take evidence from stakeholders during February 2016 and report to Parliament before the end of the current session. The report will also inform the Committee's Legacy Paper.

Ahead of Ministerial engagement with the Committee’s inquiry on prevention the following points are offered. The investment made for preventative approaches through the Change Funds has been crucial in enabling the development of new approaches and delivered real gains. In early years, there are many hundreds of Early Years Collaborative improvement tests. For example, those testing new approaches to ensure that pregnant women and families with young children on low incomes are supported to get the benefits they are entitled to, are resulting in families in some areas increasing their income by an average of between £4500 and £5000. In older people’s services there are many examples of improvements made in the way care is planned and delivered, for example bed days in hospital for people aged 75+ following an emergency admission are down by 10.2% from 2009/10 to 2013/14.

We are building on the gains made. Health and social care integration will see partnerships managing £8 billion of resources that NHS boards and councils previously managed separately, and an emphasis of prevention will be at the heart of the real changes in how services are provided. Early Years Change Fund returns from Community Planning Partnerships provide evidence of progress being made in embedding prevention in the early years that will be sustained. Our support for a continuation of the Reducing Re-offending Change Fund will ensure mentoring support, which has already been made available to over 3,300 men and women in the first two years of operation, can be extended to others.

These significant changes are a catalyst for wider preventative work. For example, through the Raising Attainment Programme teachers, local authorities, third sector organisations and parent representative groups have all received training in the same improvement methodology used successfully by the Early Years Collaborative.

An important component to our vision for a preventative approach is investment in local people and communities, so they are empowered to be involved in their own change and take control. The Community Empowerment (Scotland) Act 2015 will enable communities to work together to shape and deliver public services at their own hand.

We will also take the opportunity of implementing Scotland’s new powers to put the principles of prevention and participation at the heart of public service redesign so they too are fit for the future. This will include working with public service partners, communities and service users to ensure, for example, responsive support is available for people of all ages to overcome the barriers they face entering good jobs and to build new services in ways which treat people with respect.
SCOTTISH PARLIAMENTARY CORPORATE BODY

290. The Committee welcomes clarification on the contingency provisions in respect of the additional powers and asks to be kept up to date as the devolution of the new powers progresses. The Committee recommends that once the extent of the new powers is known the SPCB ensures sufficient resource is allocated to enable effective scrutiny.

Noted

AUDIT SCOTLAND

296. The Committee welcomes confirmation from the Chief Executive that negotiations continue in respect of a further reduction to the rates bill and looks forward to hearing the outcome of these negotiations.

Noted