Finance Committee

10th Report, 2013 (Session 4)

Draft Budget 2014-15

Published by the Scottish Parliament on 9 December 2013
### Remit and membership

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
</tbody>
</table>

### APPROACH TO BUDGET SCRUTINY

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationally Recognised</td>
<td>3</td>
</tr>
<tr>
<td>Spending and Outcomes</td>
<td>4</td>
</tr>
<tr>
<td>Impact on Policy</td>
<td>6</td>
</tr>
<tr>
<td>National Indicators</td>
<td>7</td>
</tr>
<tr>
<td>Consultation</td>
<td>8</td>
</tr>
<tr>
<td>Statutory Basis</td>
<td>9</td>
</tr>
</tbody>
</table>

### NATIONAL PERFORMANCE FRAMEWORK

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationally Recognised</td>
<td>3</td>
</tr>
<tr>
<td>Spending and Outcomes</td>
<td>4</td>
</tr>
<tr>
<td>Impact on Policy</td>
<td>6</td>
</tr>
<tr>
<td>National Indicators</td>
<td>7</td>
</tr>
<tr>
<td>Consultation</td>
<td>8</td>
</tr>
<tr>
<td>Statutory Basis</td>
<td>9</td>
</tr>
</tbody>
</table>

### PREVENTATIVE SPENDING

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change Funds</td>
<td>9</td>
</tr>
<tr>
<td>Disinvestment</td>
<td>12</td>
</tr>
<tr>
<td>System and Cultural Change</td>
<td>15</td>
</tr>
<tr>
<td>Demographic Change</td>
<td>17</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>17</td>
</tr>
<tr>
<td>McClelland Review of ICT Infrastructure</td>
<td>20</td>
</tr>
</tbody>
</table>

### SUSTAINABLE ECONOMIC GROWTH

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Investment</td>
<td>21</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>23</td>
</tr>
<tr>
<td>Non-Profit Distributing Model</td>
<td>24</td>
</tr>
<tr>
<td>Resource to Capital - overall</td>
<td>25</td>
</tr>
<tr>
<td>Resource to Capital - Health</td>
<td>28</td>
</tr>
<tr>
<td>Resource to Capital - Enterprise Bodies</td>
<td>29</td>
</tr>
<tr>
<td>Resource to Capital - Justice</td>
<td>30</td>
</tr>
<tr>
<td>Borrowing</td>
<td>30</td>
</tr>
<tr>
<td>Non-Domestic Rates Income (NDRI)</td>
<td>31</td>
</tr>
<tr>
<td>Small and Medium Enterprises (SMEs) Start-ups</td>
<td>32</td>
</tr>
<tr>
<td>Employability</td>
<td>33</td>
</tr>
</tbody>
</table>

### EQUALITIES

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare Reform</td>
<td>35</td>
</tr>
</tbody>
</table>
Remit:

1. The remit of the Finance Committee is to consider and report on-

   (a) any report or other document laid before the Parliament by members of
   the Scottish Executive containing proposals for, or budgets of, public
   expenditure or proposals for the making of a tax-varying resolution, taking
   into account any report or recommendations concerning such documents
   made to them by any other committee with power to consider such
   documents or any part of them;

   (b) any report made by a committee setting out proposals concerning public
       expenditure;

   (c) Budget Bills; and

   (d) any other matter relating to or affecting the expenditure of the Scottish
       Administration or other expenditure payable out of the Scottish
       Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the
   Parliament on the timetable for the Stages of Budget Bills and on the handling of
   financial business.

3. In these Rules, "public expenditure" means expenditure of the Scottish
   Administration, other expenditure payable out of the Scottish Consolidated Fund
   and any other expenditure met out of taxes, charges and other public revenue.

(Standing Orders of the Scottish Parliament, Rule 6.6)

Membership:

Gavin Brown
Malcolm Chisholm
Kenneth Gibson (Convener)
Jamie Hepburn
John Mason (Deputy Convener)
Michael McMahon
Jean Urquhart

Committee Clerking Team:

Clerk to the Committee
Jim Johnston

Senior Assistant Clerk
Catherine Fergusson

Assistant Clerk
Alan Hunter

Committee Assistant
Parminder Kaur
Finance Committee

10th Report, 2013 (Session 4)

Draft Budget 2014-15

The Committee reports to the Parliament as follows—

INTRODUCTION

1. The Draft Budget 2014-15 was published by the Scottish Government (“the Government”) on 11 September 2013. This report sets out the findings of the Finance Committee’s scrutiny of these proposals including a number of recommendations for consideration by the Government in advance of the publication of the Budget Bill in January 2014. The Committee received submissions from each of the subject committees, the Equal Opportunities Committee and the European and External Relations Committee and these have been published on the Parliament’s website. These reports have been useful in informing the Committee’s scrutiny of the draft budget.

2. The Committee agreed at its meeting on 19 June 2013 to focus its scrutiny of the Draft Budget 2014-15 on the National Performance Framework (NPF).\(^1\) The Committee issued a call for evidence and received 34 written submissions.\(^2\) The Committee then held a number of round table evidence sessions examining issues in relation to the NPF. The Committee continued its ongoing scrutiny of the Government’s progress in moving towards a preventative spend agenda and held an evidence session with local authorities and health boards. The Committee also heard from the Scottish Futures Trust (SFT).

3. The Committee held an external meeting in Arbroath where it held workshop sessions with local businesses and local groups from the third sector and public sector prior to taking evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth (CSFESG).

---

\(^1\) [http://www.scotland.gov.uk/About/Performance/scotPerforms](http://www.scotland.gov.uk/About/Performance/scotPerforms)

\(^2\) [http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/66640.aspx](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/66640.aspx)
4. Briefings were provided to the Committee by the Budget Adviser, Angela Scott and by the Financial Scrutiny Unit (FSU). The Committee would like to thank all those involved in providing evidence to support the budget scrutiny process.

5. The Committee also agreed to include the budget strategy phase as part of this year’s budget scrutiny and consulted with the other committees prior to summer recess before requesting performance evaluation material from the Government. This material was provided by the Government alongside the draft budget.

**APPROACH TO BUDGET SCRUTINY**

6. The Committee has agreed to adopt the following approach to its budget scrutiny based around the following 4 fundamental principles of financial scrutiny as suggested by the Budget Adviser—

- **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.

7. This approach formed the basis of the Adviser’s budget briefing and assisted the Committee in its scrutiny of this year’s draft budget and helped to inform a number of recommendations in this report. The Committee welcomes the willingness of the subject committees to adopt this approach in their own scrutiny.

**NATIONAL PERFORMANCE FRAMEWORK**

8. The Government’s website states that the NPF “underpins delivery of the Scottish Government’s agenda which supports the outcomes-based approach to performance.”³ The NPF states that the Government’s Purpose is “to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.” It is underpinned by five objectives and 16 *national outcomes* describe what the Government wants to achieve over a ten year period. 50 *national indicators* “track progress towards the achievement of National Outcomes and ultimately the delivery of the Purpose.”⁴

9. *Scotland Performs* measures and reports on progress of government in Scotland. The website states that: “You can judge for yourself how Scotland is

---

³[http://www.scotland.gov.uk/About/Performance/purposestratobjs](http://www.scotland.gov.uk/About/Performance/purposestratobjs)

⁴[http://www.scotland.gov.uk/About/Performance/purposestratobjs](http://www.scotland.gov.uk/About/Performance/purposestratobjs)
progressing through 'direction of travel' arrows on the 'Performance at a Glance' page which indicate whether performance is improving, worsening or maintaining.\textsuperscript{5}

10. The CSFESG stated that Scotland Performs is composed of two major elements—

- a unifying sense of purpose and policy making structure;
- the opportunity for people to assess on a day-to-day basis whether satisfactory progress has been made on improving conditions in the country.\textsuperscript{6}

11. The CSFESG also stated that Scotland Performs “is not a report card on the Government; it is an assessment of Scotland’s performance. Of course the Government contributes to that, but so do many other players.”\textsuperscript{7}

12. In his accompanying letter to the performance information provided by the Government alongside the draft budget the CSFESG stated—

“I am also pleased to enclose information that is intended to support the Committee’s consideration of the Government's performance against the priorities set out in the Scottish Spending Review 2011. Scotland Performs is the primary source of information about performance against the outcomes set out in the National Performance Framework.”\textsuperscript{8}

13. The Committee notes that while Scotland Performs is not a report card on the Government it is nevertheless the primary source of information about the Government’s performance. Indeed, when this Committee and its predecessor have requested the provision of information on government performance the Government has consistently highlighted the information provided in Scotland Performs. Moreover while other levels of government and the public sector and third sector may contribute to the delivery of the targets within Scotland Performs it is the Government which makes the budgetary decisions and sets the overall direction of travel.

14. The Infrastructure and Capital Investment (ICI) Committee suggests that the NPF “should be used not only to assess progress against the high level objectives but also to scrutinise Scottish Government interventions.”

**Internationally Recognised**

15. A number of witnesses pointed out that the NPF is internationally recognised as an exemplar of an outcomes-based approach to the measurement of government performance. However, there is a need to make it much more visible

\textsuperscript{5} http://www.scotland.gov.uk/About/Performance/scotPerforms
\textsuperscript{6} Scottish Parliament Finance Committee. Official Report, 4 November 2013, Col 3235
\textsuperscript{7} Scottish Parliament Finance Committee. Official Report, 4 November 2013, Col 3235
in Scotland. The Carnegie UK Trust stated that the NPF “is a tool of international significance”\textsuperscript{9} but it “is not well known.” Donald MacRae states in written evidence that the NPF “deserves strong support and positive endorsement” but “it is not well recognised or understood in Scotland.” Jeremy Peat agreed that “it is a remarkable achievement” \textsuperscript{10} and getting it “more in the public eye is desirable.”\textsuperscript{11} The Centre for Public Policy for Regions (CPPR) state in written evidence that “setting ambitious targets across all the areas identified is to be commended.”

16. The Economy, Energy and Tourism (EET) Committee invites the Government to “consider how it might better demonstrate the role, impact and relevance of the NPF and how it does inform policy and spending priorities and levels” and how it might better link into the draft budget process.

17. In response to questioning from the Committee that the NPF is not well known in Scotland the CSFESG stated that it is “pretty well known” at public leadership level and “probably well known” by the policy-making community. He conceded that it is not well known more generally but stated that “I am not sure that it is vital that it is understood by members of the public”\textsuperscript{12} and that “the public expect us just to get on with our job.”\textsuperscript{13}

18. The Committee very much welcomes the NPF and the emphasis on an outcomes-based approach. However, the Committee believes that the benefits of this approach are not being fully utilised. In particular, there appears to be a lack of clarity in relation to both the purpose of \textit{Scotland Performs} and the intended audience.

19. The Committee invites the Government to provide details of the exact purpose of the NPF, its intended audience and how it works in practice and recommends that this information is published on the \textit{Scotland Performs} website.

20. The Committee agrees with the ICI Committee that the purpose of the NPF should include the scrutiny of Government interventions.

21. The Committee asks if, and to what extent the four principles of financial scrutiny are reflected in the NPF.

\textbf{Spending and Outcomes}

22. A recurring issue in the Committee’s budgetary scrutiny is the lack of any linkage between spending and outcomes in either the draft budget document or the NPF. Audit Scotland has also consistently called for the Government to publish information which demonstrates clear links between the draft budget, government priorities and the performance of public services. It argues that:

\begin{itemize}
  \item \textsuperscript{9} Scottish Parliament Finance Committee. \textit{Official Report}, 9 October 2013, Col 3124
  \item \textsuperscript{10} Scottish Parliament Finance Committee. \textit{Official Report}, 2 October 2013, Col 3087
  \item \textsuperscript{11} Scottish Parliament Finance Committee. \textit{Official Report}, 2 October 2013, Col 3104
  \item \textsuperscript{12} Scottish Parliament Finance Committee. \textit{Official Report}, 4 November 2013, Col 3242
  \item \textsuperscript{13} Scottish Parliament Finance Committee. \textit{Official Report}, 4 November 2013, Col 3248
\end{itemize}
“Financial monitoring should include information on how well money is being used to deliver front-line services and achieve national outcomes.”

23. A number of witnesses raised this issue in response to the Committee’s consultation on the NPF. Angus Council stated that the “linkages between performance information and the Scottish Government’s spending priorities are not always apparent especially at a local level.” West Dunbartonshire Council while welcoming the NPF suggest that “it is weakened by the lack of aligned financial information” and that it is “difficult to evidence the link between the outcomes/objectives and the spending review/resource allocation decisions.” The RSE state that the “long-term nature of many of the desired outcomes set out in the NPF requires annual information on the cost, activity and quality of services delivered.”

24. The Joseph Rowntree Foundation (JRF) suggested that there is a need “for much clearer links between the priority setting and resource allocation decisions that are made by Government and its partners in contributing to the targets and outcomes.” The CPPR state in written evidence that the “link between the Scottish Government’s budget allocations and its chosen economic targets is extremely hard to ascertain.” However, Donald MacRae argues that it “is difficult to see how direct linkages involving allocation of resources directly and explicitly linked to units of performance can be achieved.” He suggests though that “there are indirect linkages and the question is how we can encourage them…one way of doing that would be to have reference to indicators in all budget statements on expenditure.”

25. The Budget Adviser notes that there is “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.” She points out that some jurisdictions including the State of Virginia have moved towards a system of linking expenditure to performance.

26. The Health and Sport (HS) Committee is also concerned “about the lack of clear links between the information in the Draft Budget and the indicators.” The HS Committee also recommends the provision of “links between the performance measures and the overall aims of the healthcare system.” The Rural Affairs, Climate Change and Environment (RACCE) Committee notes that “it is not currently easy to determine how the draft budget supports” each indicator. When questioned on this point the Cabinet Secretary for Rural Affairs and the Environment gave the RACCE Committee “a commitment to consider how the link between budget headings and the relevant NPF indicators could be better presented in future.”

27. The ICI Committee point out that there “is no attempt to link spend to specific Targets or Indicators” within the draft budget. Neither is “there much mention of prioritisation in the expenditure to achieve greater progress” towards outcomes.

16 http://vaperforms.virginia.gov/
28. The ICI Committee noted that there may be a number of budget lines across different sectors contributing to the same targets and outcomes. It suggests that this cross-sectoral engagement “requires a new kind of evidence base” and that “such analysis requires Logic Modelling looking either at all policies and expenditure that significantly influence a particular Target or Outcome (top down) and/or all Targets and Outcomes that are influenced by a particular line of expenditure (bottom up). It notes that the Government has already undertaken such analysis in several areas.

29. The ICI Committee also emphasised the role of behaviour change in influencing outcomes. The Cabinet Secretary for Infrastructure, Investment and Cities agreed and told the ICI Committee she “would be content to request that more information is produced on behaviour change.”

30. In response to questioning on this issue the CSFESG provided the example of the introduction of the Reducing Reoffending Change Fund. He stated that within “Scotland Performs one of the priorities is to reduce reoffending but we found ourselves in a position where reoffending was not dramatically reducing.” Following discussions with the Cabinet Secretary for Justice the decision was taken to shift resources to support the introduction of the Change Fund.

31. The Committee asks whether in seeking to enhance the usefulness of the NPF the Government has any plans to move towards a more substantive approach to linking performance and resource similar to jurisdictions such as the State of Virginia.

32. The Committee invites the Government as recommended by the ICI Committee to review the template for the draft budget document to improve the linkage between expenditure and the NPF.

33. The Committee invites the Government as recommended by the ICI Committee “to review the use of Logic Models in the context of the NPF” and to “publish a policy or guidance note showing when it considers such modelling would be beneficial and should be undertaken and when it is felt it would not be appropriate.”

34. The Committee also agrees with the ICI Committee that the Government should “publish a short summary” of where it currently utilises Behaviour Change techniques.

Impact on Policy

35. The Carnegie UK Trust stated in written evidence that “it is not entirely clear how the NPF is used within government” and that “Scotland Performs is not embedded into policy making processes.” They argue that “without further investment, there is a risk that it will remain a public performance reporting mechanism with limited impact on policy development.” The STUC suggest that

---

there “is a major job in the hands of Ministers to embed the National Performance Framework in the Government before we go any further.” Aberdeenshire Council stated in written evidence that they are not aware of any evidence that “suggests specific spending decisions have arisen as a result of changes to performance monitored through Scotland Performs.” The SCVO state that “it comes across as a communication tool rather than a strategic tool.”

36. The CSFESG stated that the Government is “looking at awareness raising and how to embed Scotland Performs more deeply in the policy-making community in Scotland.”

37. The Committee would welcome clarification in relation to how Scotland Performs will be embedded within the policy-making community across the public sector including the Scottish Government.

National Indicators

38. A number of witnesses suggested changes to the indicators within the NPF. In particular, there was considerable discussion in relation to the usefulness of the current economic indicators. Some witnesses questioned whether GDP is the most suitable measurement of national economic prosperity. Stephen Boyle recommended removing “any one of the economic indicators and replace it with a measure of median household disposable income.” The STUC agreed and stated that such an indicator would “be a much better indicator of national collective prosperity than GDP.” Oxfam Scotland also endorsed this approach and stated that it “would be a better measure of the benefit of economic growth to the typical household in Scotland.” Bob Black, former Auditor General for Scotland, expressed surprise “that there is so little about housing in the framework.” The STUC argue that “the current framework does not make sufficient reference to the workplace.” The Scottish Women’s Budget Group emphasise “the importance of integrating an equality analysis of the budget” in the NPF.

39. The EET Committee received evidence which questioned the usefulness of the indicator which measures the increase in the number of businesses. The EET Committee asks the Government to “demonstrate that the indicator is a meaningful measure of increased growth potential or consider introducing a more nuanced and detailed set of indicators of entrepreneurial growth.”

40. The ICI Committee heard evidence which questioned the focus of the housing need indicator on homelessness and recommends that “a new housing needs indicator is developed for Scotland Performs.”

---

41. The CSFESG stated that the Government “is open to reviewing and revising indicators, based on discussion.” In relation to the number of indicators he stated that if “we had many more indicators than we have just now, I think that the whole process would become a bit unwieldy.”

42. Some witnesses also questioned why each of the indicators appears to be afforded equal status. The RSE suggested that there is a need to develop a more strategic approach that “enables the NPF to act as a mechanism through which choices between priority areas can readily and objectively be made.” The CPPR pointed out that “short-term trade-offs between the various targets may be necessary to achieve longer-term goals.” Donald MacRae suggests that it “should be possible to take the fifty indicators and award each indicator a priority rating based on a scale of one to five.” The JRF highlighted the variation between the 16 national outcomes in terms of which indicators are related to them. They pointed out that one “outcome has only three indicators related to it, whereas another has 18” and that “the relationship between the outcomes and the indicators is a bit random.”

43. The HS Committee noted that a “considerable number of performance indicators seem to be attributed to health and wellbeing and there was a general concern that this information might be overwhelming.” The HS Committee also heard evidence that there is a need “to provide a clear sense of prioritisation of the many different targets, to better direct the actions of relevant services.”

44. The CSFESG stated that there “is a hierarchy in Scotland Performs in which we identify what I consider to be strategic factors that relate to growth and participation in the economy and the cohesion of our society.”

45. The Committee recommends the inclusion of an indicator which measures median household disposable income.

46. The Committee recommends greater clarity in relation to prioritisation within the NPF including details of the “hierarchy in Scotland Performs.”

Consultation

47. A further issue which arose in evidence was the apparent lack of consultation by the Government in developing the NPF. The Carnegie UK Trust stated that “one weakness was that the Government did not engage civil society about which domains of wellbeing or measures or outcomes should be used.” The SCVO suggest that “the national outcomes and the measures should be a co-produced effort involving wider society such as the business community, civil society and academia.”

---

48. The CSFESG conceded that “there was almost no public consultation or dialogue about what was in the first round of indicators.”\(^{33}\)

### Statutory Basis

49. The CSFESG stated that the issue of making the NPF statutory would be included in the consultation on the Community Empowerment and Renewable Bill.\(^{34}\)

50. **The Committee welcomes this approach.**

### PREVENTATIVE SPENDING

51. The Government stated in its Spending Review 2011 that it has “identified significant funding to support a transition across public services away from dealing with the symptoms of disadvantage and inequality towards tackling their root causes.”\(^{35}\) The Christie Commission emphasised that it is essential that the change funds are monitored and that it “does not become just a tick-box exercise.” The Committee indicated in its report on the 2011 Spending Review that it would monitor the progress of the change funds.

52. The Written Agreement between the Committee and the Government on the budget process states that: “the Committee aims to ensure that the scrutiny of preventative spending is integral to the annual budget process and the SG agrees to include an overall assessment in the Draft Budget of the progress that is being made towards a more preventative approach.”\(^{36}\)

53. **The Committee invites the Government to provide an overall assessment of the progress that is being made towards a preventative approach as specified in the Written Agreement.**

54. **The Committee asks if, and to what extent the four principles of financial scrutiny inform the Government’s approach to preventative spending.**

### Change Funds

55. The Government is committed to providing over £500m of investment in the Change Funds over the period of the Spending Review period from 2012-13 to 2014-15. Draft Budget 2012-13 states that—

“Together it is anticipated that national and local government and their community planning partners will invest up to £500 million through these

change funds to support the greater alignment of budgets across the public sector on a preventative and outcomes-focused basis.”

Reshaping Care for Older People (RCOP) Change Fund
56. The bulk of the investment in the RCOP Change Fund is being made from the health budget as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health (£m)</td>
<td>70</td>
<td>80</td>
<td>80</td>
<td>70</td>
<td>120</td>
</tr>
</tbody>
</table>

57. This includes funding of £70m which the Government had previously allocated to the Change Fund prior to the 2011 Spending Review. The existing funding for the Change Funds ends in 2014-15. Additional funding of £120m for 2015-16 has been announced in Draft Budget 2014-15. The 2011 Spending Review also stated that the RCOP Change Fund would be “supplemented by funding from local authority partners.”

58. **The Committee welcomes the additional funding which has been allocated to the RCOP Change Fund but is concerned about the limited contribution which some local authorities appear to be making and asks the Government to provide details of how much new money has been provided by local authorities.**

Early Years (EY) Change Fund
59. The Government has also stated that the total resource for the EY Change Fund over the Spending Review period is estimated to be £272m. The Early Years Taskforce has published guidance on the EY Change Fund which includes a breakdown of the funding as follows:

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>Total (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Government</td>
<td>10.5</td>
<td>14.5</td>
<td>16.5</td>
<td>8.5</td>
<td>£50</td>
</tr>
<tr>
<td>Health</td>
<td>36</td>
<td>39</td>
<td>42</td>
<td>-</td>
<td>£117</td>
</tr>
<tr>
<td>Local Government</td>
<td>20</td>
<td>35</td>
<td>50</td>
<td>-</td>
<td>£105</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£272</td>
</tr>
</tbody>
</table>

60. The total investment for the Spending Review period is £263.5m with a further £8.5m allocated by the Government to support national programmes in 2015/16. There is no indication of any further money being allocated to the EY Change Fund in 2015/16 from either the Health or Local Government budget.

61. The Committee has previously questioned the extent to which the funding being provided to the Change Funds by local authorities is based on refocusing existing activities rather than additional monies. The Early Years Taskforce guidance states that “The Early Years Change Fund is a combination of existing

---

37 Scottish Government. Scottish Spending Review 2011, p. 224
38 Scottish Government. Scottish Spending Review 2011, p. 38
funds currently committed and new funds.” While the Scottish Government’s contribution of £50m is new funding the guidance states that at “a local level, we understand that these funds are a blend of currently allocated and redeployed resources.” West Dunbartonshire Council when questioned on this point stated that: “From the discussions that we have had, I know that the investment in change fund activity is not new money; it is the same money spent differently.”

62. The performance information provided by the Government on the Early Years states that it is “clear that there is significantly more spent on early years than is captured in the Change Fund. This indicates that the Change Fund has been successful in leveraging in additional resources to drive the move to prevention and early intervention.”

63. However, the Budget Adviser states that “it is still unclear whether improvements have been able to unlock resources and the cost associated with the achievement is not clear.”

64. The Committee is concerned about the limited contribution which some local authorities appear to be making towards the EY Change Fund and asks the Government to provide details of how much new money has been provided.

65. The Committee also asks the Government to provide evidence of the additional resources which the EY Change Fund has leveraged within local authorities to support early intervention.

Reducing Reoffending (RR) Change Fund

66. The RR Change Fund totals £10m with the Government contributing £7.5m, the Robertson Trust, £2m and the Scottish Prison Service, £500,000. The Fund has two main aims—

- To provide offenders with substantial one-to-one support through evidence-based mentoring schemes;
- To promote strong, equal partnership working between third sector and public sector organisations.

67. The fund has provided two-year funding for the delivery of two national mentoring services. The Justice Committee reports that while the fund has been “extremely useful” there are “concerns regarding the implications of the projects should the funding end after two years.” When asked to respond to these concerns the Cabinet Secretary for Justice stated that he was “open to discussion on this.”

---

40 http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEBUPDATED.pdf
68. The Committee notes the recommendation of the Justice Committee that the Scottish Government provides funding for an additional year to allow the projects to run for the full three-year period as originally planned.

**Disinvestment**

69. The previous Finance Committee stated in its report on preventative spending in January 2011 that one of the main barriers to change is that the necessary level of investment to effectively support a shift towards prevention will require disinvestment in some existing services. The Committee recognised this issue in its report on Draft Budget 2012-13. The Committee noted that “difficult decisions regarding disinvestment will need to be made to ensure that preventative spending becomes integral to service delivery in the longer term.” The Early Years Task Force states in its guidance on the EY Change Fund that “The decision to disinvest will be difficult, but if we are to make the shift we need, those decisions are crucial.” However, Glasgow City Council stated in oral evidence on Draft Budget 2014-15 that disinvestment is “extremely difficult to do at any time...but it is particularly difficult to do at the moment.”

70. Children in Scotland state that while the EY Change Fund is a useful incentive “our partners have pointed out to us the dilemma they face in transferring increasingly scarce resources to meet revised priorities.” Their view is that “there is very little in the way of ‘slack’ in the financial system which would allow a major shift of resources, while still ensuring that current statutory duties are met.” They also question whether the Government and Parliament will be “able to measure from a meaningful baseline whether there is a shift of resources towards the prevention and early intervention priorities.”

71. The Health and Social Care Alliance Scotland (HSCAS) and Voluntary Action Scotland (VAS) argue that the “move to preventative spend has not yet been significant enough.” They raise concerns about the RCOP Change Fund being used to a certain extent to “prop up existing service provision so that it is maintained rather than driving the change agenda.” The Independent Living in Scotland Project and Inclusion Scotland argue that local authorities continue to focus on crisis interventions and “are not providing the preventative, low level support disabled people need.”

72. The Coalition of Care and Support Providers in Scotland (CCPS) expressed concern in evidence to the HS Committee that—

“some of the Change Fund has been used to fund short-term preventative interventions, so once the Change Fund stops, so will they. The Change Fund was supposed to be a kind of lever to shift the bulk of spending that was behind it; it has, in fact, been used in creative ways, but almost as an isolated project fund.”

---

73. The Equal Opportunities (EO) Committee heard evidence which “outlined the extreme challenges faced by disabled people in accessing social care services delivered through local authorities.” It concluded that “the funding currently being provided through the public sector is insufficient to meet the needs of many disabled people” and “that opportunities are now being missed to take a preventative approach.”

74. NHS Greater Glasgow and Clyde (GGC) point out that there is a balancing act for local authorities and health boards in seeking to “invest in new programmes of prevention and intervention while managing their budgets in a way that deals effectively with the problems that confront them at present.” They argue that “that balancing act is probably the biggest challenge that health boards and local authorities in the west of Scotland are facing.” However, “the release of any new resources for early intervention will not get an easy or a clear ride. Those resources will need to be bid for and competed for, and there is no getting away from the fact that, in the present environment, the competition is tough.”

75. The Local Government and Regeneration (LGR) Committee considered the pressure local authorities are facing in funding statutory services and the implications for discretionary services. The LGR Committee noted that—

“It is clear there is widespread concern in relation to the potential reduction or withdrawal of discretionary services to the public as local authorities continue to try to find savings in terms of their budgets. The belief that councils have absorbed as much of the financial squeeze internally as they can, and that front line services will now be impacted in a major way over the coming years, is clearly causing a great level of concern.

Many councils are expressing concern that the potential savings to be made from reforms and reductions in their operations will now only have limited benefit going forward.”

76. However, the LGR Committee also question how severe the current cost pressures are on local authorities given the 34,500 job losses in the local government sector since 2008. The LGR Committee point out that the most recent figures from 2011-12 show a sharp decline of just under £537m in staff costs. The LGR Committee, therefore, states that it expects “a significant reduction” in the staffing budgets required by local authorities in future years.

77. At the same time though the LGR Committee also highlights a potential increase to local authority pay bills as a consequence of changes to national insurance contributions from 2016. Local authorities currently receive a rebate on national insurance contributions due to the pension arrangements which they have. This rebate is due to end in 2016 and the LGR Committee states that it “will be important to establish what its overall revenue implications will be across the entire local government sector in Scotland.”

78. In response to questioning from the Committee that the change funds are being used to prop up existing service provision the CSFESG stated that “change fund allocations to individual projects were made only if those projects involved a degree of joint development between different public service sectors to produce a change to the way in which a service was being delivered.”

79. In relation to the unlocking of resources the CSFESG stated that “there is an accounting challenge in trying to identify the consequences of a preventative measure or service that has been put in place and whether it has directly saved us money in some other part of the service.”

80. The Committee is concerned that there appears to be a real lack of evidence of the necessary disinvestment taking place to support the shift towards a preventative agenda. Without this disinvestment in existing services it is difficult to see where the additional resource for preventative services will come from.

81. The Committee asks whether the Government is content with the progress being made by public bodies in carrying out the necessary disinvestment to unlock resources for a preventative approach.

82. The Committee also asks the Government to provide examples of resources being unlocked for preventative measures through a disinvestment in existing services.

83. The Committee asks the Government whether there have been any discussions with COSLA in relation to local authorities deploying any savings to preventative services from the “significant reduction” in staff costs, identified by the LGR Committee.

84. The Committee also asks the Government whether there have been any discussions with COSLA in relation to the impact on local government financing of UK Government changes to national insurance contributions from 2016.

85. The Committee recommends that the principles of affordability, prioritisation and value for money are a useful framework for driving forward the essential disinvestment which is necessary to move towards a preventative approach.

Bridging Funding

86. The Committee heard from some witnesses that there is a need to provide bridging funding and that the Change Funds had been welcome in this regard. For example, West Dunbartonshire Council point out that while there are good examples of a shift towards a preventative approach there is a need to recognise that “such a switch of focus requires an element of ‘bridging support’” due to the

---

need for “some ‘double running’ of services as current demand takes some time to lessen.”

87. NHS GGC point out that the Change Funds have helped to address this problem as “they have given us some breathing space to provide some of the bridging finance that enables us to address both sets of issues simultaneously.”

NHS Fife agreed with this point but stressed that there is need to extend the change funds for another couple of years beyond 2015 “to fully deliver the future model of delivery that we all envisage. We need to allow local authorities and boards some certainty for another few years so that the new models can become embedded as the way forward.”

This was a view shared by Glasgow City Council who stated that “people are changing, and we must allow enough times for those changes to be delivered.”

88. The Committee welcomes the additional funding of £120m for the RCOP Change Fund for 2015-16 but notes that only £8.5m appears to have been allocated to the EY Change Fund. The Committee asks whether the Government expects local authorities and health boards to contribute additional funding to the EY Change Fund in 2015-16 and beyond.

System and Cultural Change

89. NHS Highland argue that the shift towards preventative spending will require total system change. They point out that the Change Funds while welcome “will not create a preventative approach on their own.” Rather, the Change Funds should be looked at as a means of creating initial change and as “a catalyst to lever in system change.”

90. The Committee welcomes the approach being taken by NHS Highland and Highland Council in seeking “to achieve better outcomes for people through directing resources more effectively, and through new and integrated service delivery models.” In particular, the Committee notes the partnership agreement between Highland Council and NHS Highland. In March 2012 the two bodies agreed responsibilities for the delivery of integrated services for adults and children. Highland Council is the lead agency for integrated children’s services while NHS Highland is the lead agency for adult services. The Committee also welcomes the “recurring £6m in additional resource” which Highland Council is investing in a preventative approach.

91. Glasgow City Council also pointed out the challenges of realising the fundamental cultural change to realise a shift towards a preventative approach. They stated that: “People have worked in the system for a long time and some of them will embrace change, others will be more ambivalent and others will resist

---

Fife Council stated that the “success of prevention and early intervention will depend on the reshaping of mainstream provision and universal services. It is not about a small, targeted response; it is about reshaping the whole system.” However, the HSCAS and VAS question the assumption that any new preventative approaches will be mainstreamed once the Change Fund ends.

92. The HS Committee noted that there was a consensus among the witnesses it heard from of the need for “a radical change of the healthcare system”. The HS Committee concluded that this—

“...is a clear signal that the system recognises the need for a significant change in order to make the healthcare system sustainable in the long term, accounting for current and future pressures and changing health and care needs reflecting demographic trends.”

93. The Government’s guidance on the new Single Outcome Agreements (SOAs) states that they—

“should include a plan for prevention which demonstrates commitment to the approach extending beyond the Change Funds for Early Years, Reducing Reoffending and Reshaping Care into mainstream services; quantifies the resources allocated to prevention and commits to increasing them over time; and provides clarity on the preventative actions to be taken and the impact they will have.”

94. The CSFESG stated that the “cultural challenges are being addressed by work on two levels”—

- The national community planning group is driving culture and attitude change;
- “Specific measures to encourage focus on the different approaches that can be taken to preventative action and to breaking down compartments in public services”.

95. The Committee concluded in its final report on its inquiry into demographic change that it “is concerned that there would appear to be a lack of real progress in addressing some of the main challenges and barriers which prevent the necessary cultural and structural change which is required in the way our public services are delivered.”

96. The Committee welcomes the progress which NHS Highland and Highland Council are making especially in relation to the integration of services and invites the Government to respond to the view of Highland
Council that the shift towards preventative spending will require total system change.

97. The Committee notes, however, that progress would appear to be much slower in other areas and would welcome the views of the Government on the main challenges and barriers preventing cultural and structural change and what actions it is taking to address these.

Demographic Change

98. One of the main drivers of the preventative spend agenda is demographic change and an ageing society. The Committee recently concluded a substantial inquiry on the impact of demographic change. The Committee found that while there was a high level of support for a preventative approach this was viewed as a long term approach while there was a considerable short to medium term problem of demand due to demographic change. This meant that it would be difficult to fund and support preventative measures. For example, NHS GCC stated—

“As well as the direct impact on service use, a further potential risk is that the immediate pressures of demographic change will make it difficult to fund and support other priority areas with longer term benefit, in particular preventative spend and a focus on early years interventions and support for vulnerable children and families….By responding to demographic changes by extending current models of health care to more older people with long term conditions it is unlikely we can realise aspirations to shift resource to preventive spend and early years.”

99. The LGR Committee received evidence from a number of local authorities as part of its draft budget scrutiny which emphasised the “pressures demographic changes are placing on their current and future budget planning provisions.” For example, Fife Council stated that the increased demand on services as a consequence of demographic change “will create a significant gap between funding and council expenditure.”

100. The Committee invites the Government to respond to the view of the LGR Committee that “we remain to be convinced the delivery of the preventative spending agenda is keeping pace with the ever-growing demographic pressure local authorities are facing.”

Monitoring and Evaluation

101. The Government stated in January 2012 that “work is underway to develop monitoring and evaluation frameworks” for the RCOP and EY Change Funds. The Committee raised concerns about the lack of progress in developing these frameworks in its report on last year’s draft budget. The Government responded that it “is committed to establishing fit-for-purpose monitoring and evaluative processes underpinning what we recognise to be a very long term shift in spending patterns and culture in public services for Scotland.” The Government also indicated that each of the Change Funds will also evaluate their impact over the short to medium term.
102. The Committee also raised concerns about the evaluation and monitoring of the impact of preventative policies in its recent report on the Financial Memorandum for the Children and Young People (Scotland) Bill. In particular, the Committee noted the lack of detail underpinning the forecast savings from the implementation of preventative policies. The Committee emphasised that the Government needs to develop a more robust methodology for forecasting potential savings from preventative policy initiatives. The Committee also recommended that that the actual savings are effectively monitored and reported. 57

103. Draft Budget 2014-15 states that: “Analysis and feedback from the three Change Fund programmes demonstrates that real progress is being made at the local level to drive a change in mainstream delivery in relation to early years, reducing reoffending and health and social care provision.” 58

104. In response to questioning from the Committee on the evaluation of the Change Funds the CSFESG stated that: “there will be periodic reporting on, and assessment of, individual programmes.” 59

105. The Committee invites the Government to update it on progress in “establishing fit-for-purpose monitoring and evaluative processes” as stated in the response to last year’s draft budget report.

**EY Change Fund**

106. In its response to last year’s draft budget report the Government stated that: “The Early Years Task Force will monitor and evaluate the way in which the Change Fund is operating and will be seeking information from CPPs by 30 June 2013. This will include monitoring spending.” Draft Budget 2014-15 states that the Early Years Taskforce will be seeking to review regularly the operation and the impact of the EY Change Fund. 60

107. The Committee asks the Government what progress has been made in developing a “monitoring and evaluation framework” for the EY Change Fund as stated in January 2012 and when will an evaluation report will be published.

**RCOP Change Fund**

108. The Joint Improvement Team (JIT) have published mid-year reports on the change fund for 2011-12 and 2012-13. 61

109. The JIT report for 2012-13 states that—

“Progress in Reshaping Care for Older People is primarily evidenced by trends in the suite of published national outcomes that relate to care of older people. These include indicators of the Balance of Care for over 65s; the rate of emergency hospital bed days for older people; changes in the

58 Scottish Government Draft Budget 2014-15
60 Scottish Government Draft Budget 2014-15
proportion of the last 6 months of life spent at home or in a community setting; and delays in discharge from hospital.”

110. However, given that the Change Fund is relatively new and the time lag in some of the nationally available data JIT point out that “an analysis of trends since the start of the Change Fund alone is rendered unreliable at present.”

111. In its report on demographic change and an ageing population the Committee asked the Government to “explain why performance has not improved over the last five years in relation to the National Indicator, ‘Reduce emergency admissions to hospital’.” The Government stated in its response that “The rate of emergency admissions for the 75+ age group was around 320 and admissions per 1000 population between 2003/4 and 2005/6, increased steadily to 350 between 2005/6 and 2008/9 and has remained around this level up until 2011/12. The rate of emergency bed days for the 75+ age group has decreased each year since 2008/9.” The JRF emphasised the significance of the emergency admissions indicator in the context of the preventative spending agenda and asked whether the reshaping care for older people policy “is strong enough, fast enough and being delivered with the right degree of urgency for that indicator to start to go in the right direction.”

112. JIT also provide a breakdown of how the change fund money is being allocated and this is reproduced in Table 1 below.

<table>
<thead>
<tr>
<th>SCOTLAND</th>
<th>Preventative and anticipatory care</th>
<th>Proactive care and support at home</th>
<th>Effective care at times of transition</th>
<th>Hospitals and long stay care homes</th>
<th>Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/2012 Change Plans</td>
<td>19%</td>
<td>27%</td>
<td>24%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>2012/2013 Change Plans</td>
<td>23%</td>
<td>25%</td>
<td>28%</td>
<td>16%</td>
<td>8%</td>
</tr>
<tr>
<td>2012/13 projected spend at Mid Year</td>
<td>25%</td>
<td>27%</td>
<td>24%</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>

113. The projected spend for 2012/13 shows that 52% of the Change Fund has been allocated for preventative, anticipatory and more proactive community based services to support people living at home. JIT suggests that the increase in enablers such as training and development “perhaps signals the scale of transformation required to enable a sustainable shift in the location and approach to care.”

---

62 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/59613.aspx#unplanned
63 http://www.scottish.parliament.uk/S4_FinanceCommittee/SG_response_demographic.pdf
64 Scottish Parliament Finance Committee. Official Report, 2 October 2013, Col 3082
114. In response to questioning from the Committee on the effectiveness of the reshaping care policy the CSFESG responded that he was very confident that the policy is strong enough but that it is not happening fast enough.\(^65\) The integration of health and social care is, therefore, “a major legislative and policy priority for the Government” and this will be supported by the additional funding for the RCOP Change Fund in 2015-16.

115. **The Committee invites the Government to provide outturn figures for the RCOP Change Fund allocation for 2011-12 in comparison with the change plans for 2011-12 in Table 1 above.**

116. **The Committee will invite the Joint Improvement Team to provide an update on progress in implementing the RCOP Change Fund and the Early Years Taskforce to provide an update on progress in implementing the EY Change Fund at a future meeting.**

**RR Change Fund**

117. Draft Budget 2014-15 states that the RR Change Fund “has helped to develop two national offender monitoring services and four local, specialised mentoring projects providing guidance and assistance to prolific young male offenders and women offenders.”\(^66\)

118. The Justice Committee reports that an independent evaluation of the public social partnership (PSP) development funded by the first year of the RR Change Fund was published on 17 May 2013 and that an “independent evaluator would be appointed to examine the on-going development of the PSPs and the delivery of mentoring services.”

119. **The Committee welcomes the level of analysis and evaluation of both the RCOP Change Fund and the RR Change Fund but is concerned that a similar level of independent evaluation does not appear to have been carried out in relation to the EY Change Fund and asks the Government to explain why.**

**McClelland Review of ICT Infrastructure**

120. In its report on Draft Budget 2012-13 the Committee invited the Government to provide a progress report, including details of savings, on the implementation of the McClelland Review in future draft budget documents. The Government responded that it would be happy to provide an annual update to the Committee but no report was received and the Committee again invited the Government to provide the agreed annual update in its report on Draft Budget 2013-14. The Government responded—

> “The Government’s response to the committee dated 18th January 2012 confirmed the Public Sector ICT National Board (now the Digital Public Services Board) will provide progress reports to the Cabinet Sub Committee

\(^{65}\) Scottish Parliament Finance Committee, *Official Report, 4 November 2013, Col 3239*  
\(^{66}\) Scottish Government *Draft Budget 2014-15*
for Public Service Reform and I would be happy to provide an annual update on progress to the Committee. I can confirm that our strategy Scotland's Digital Future- Delivery of Public Services was published on 19th September 2012. The strategy sets out our early actions for delivering on our ambitions and recommendations in the McClelland review. The McClelland review indicated efficiencies initially through collaborative procurement could begin in 2012/13 progressively growing over a 5 year period.

We will through our agreed Measurements and Benefits framework at the end of 2012/13 begin the process of collecting data and evidence utilising the existing benchmarking and data sources, and timetables to avoid unnecessary duplication. This will be reported to the Cabinet Sub Committee on Public Service Reform in due course and I would be happy to share the findings with the Finance Committee.”

121. The Government stated in its response to the McClelland Review that Spending Review 2011 assumes that savings of between £230m to £300m a year will be made in the ICT budgets of the public sector. The Budget Adviser states that it “is not clear whether the suggested savings by the McClelland Review have been accounted for” in Draft Budget 2014-15.

122. The CSFESG stated in relation to the projected savings from the implementation of the McClelland Review that: “There is no separate accounting for the savings that are being made. What I essentially identified for public bodies was a toolbox that could be used to deliver against the more demanding financial climate for the public services.”

123. The Committee asks what impact the projected savings from the McClelland Review had on the budget allocations for 2014-15.

SUSTAINABLE ECONOMIC GROWTH

124. In its scrutiny of Draft Budget 2013-14 the Committee focused on whether spending decisions align with the Government's Purpose of increasing sustainable economic growth. In this section of the report the Committee follows up some of the issues which it considered in last year's budget scrutiny.

Capital Investment

125. The Government stated in its Spending Review 2011 that capital investment is central to its efforts to accelerate economic recovery and it has sought to supplement the DEL Capital budget by various means. This is presented in figure 1 of the Draft Budget 2014-15, which is reproduced below.
Figure 1: Scottish Government’s Capital Investment plans as presented

Source: Scottish Government Draft Budget 2014-15

126. Table 2 provides the numbers behind Figure 1 as follows:

Table 2

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital DEL</td>
<td>2,508</td>
<td>2,654</td>
<td>2,652</td>
</tr>
<tr>
<td>NPD programme</td>
<td>185</td>
<td>809</td>
<td>932</td>
</tr>
<tr>
<td>RAB enhancements</td>
<td>220</td>
<td>449</td>
<td>428</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>84</td>
<td>80</td>
<td>63</td>
</tr>
<tr>
<td>Resource to Capital Switch</td>
<td>243</td>
<td>165</td>
<td>67</td>
</tr>
<tr>
<td>Borrowing</td>
<td>0</td>
<td>0</td>
<td>296</td>
</tr>
<tr>
<td>Total estimated capital investment</td>
<td>3,240</td>
<td>4,157</td>
<td>4,438</td>
</tr>
</tbody>
</table>

Source: FSU

127. Spending Review 2011 anticipated that the real terms cut to the Capital DEL budget between 2010-11 and 2014-15 would be 36.7%. However, Draft Budget 2014-15 states that the Capital DEL budget has been cut in real terms by 26.6% (excluding financial transactions) over the period 2010-11 to 2015-16.

---

69 Scottish Government Draft Budget 2014-15
Maintenance Expenditure

128. The Budget Adviser states that the draft 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.”

129. In response to questioning on this issue the CSFESG stated that nearly 20% of the capital budget is being allocated to maintenance issues and some of that “will be used to tackle the historical backlog, and some will be used to ensure that new assets that we have acquired can be kept in good condition.”

130. The HS Committee stated that it is “pleased to see a considerable decrease in the backlog maintenance has taken place in recent years.” The Cabinet Secretary for Health and Wellbeing also told the HS Committee that we “believe that, by 2017, we will have completely wiped the slate clean on the high risk and significant risk backlog.” However, the HS Committee would welcome further information on how the strategy for handling the remaining backlog maintenance can be achieved.

131. The Government stated in response to the Committee’s report on Draft Budget 2013-14 that—

“Maintenance spend will be held broadly flat in cash terms, ensuring that essential maintenance can continue. We are also working with the Scottish Futures Trust to take forward improvements in the way we manage assets across the public sector to reduce maintenance requirements over the next few years, through greater collaborative use of assets and disposal of surplus assets.”

132. The Committee asks whether maintenance spend continues to be broadly flat in cash terms.

133. The Committee also asks what assumptions have been made for backlog maintenance and what the impact will be on future capital investment.

Capital Receipts

134. The Budget Adviser notes that 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.” She points out that there is little detail in the draft budget and suggests that it “would aid transparency if a breakdown was provided” including a justification for the disposal of public assets versus other options for the utilisation of these assets.

135. The CSFESG stated that: “The budget is predicated on capital receipts of approximately £80m in 2014-15. That money has to materialise in order to underpin our plans, but I think we have set a reasonable level of expectation.”

---

136. The Committee asks that the Government provides a breakdown of the latest available figures for the disposal of the assets in next year's Draft Budget including whether other options were considered for the utilisation of these assets.

Scottish Enterprise
137. The level 3 figures for Scottish Enterprise include a budget line of £26.3m in 2014-15 for “additional income from further asset realisations.” The EET Committee received confirmation from Scottish Enterprise that these are effectively further property sales in addition to the budget line of £4m for property disposals. The £26.3m is required to maintain Scottish Enterprise’s previously planned expenditure of £336.7m.

138. The EET Committee states that it “is not clear what contingency plans are in place should Scottish Enterprise fail to realise the income through property sales” and asks the Government to confirm if it plans to make up any shortfall through in-year adjustments of the 2014-15 budget. The EET Committee also asks Scottish Enterprise what action it will take if it is unable to realise the £26.3m through further property sales.

139. The Committee asks the Government why there would appear to be two budget lines for property sales in the level 3 figures for the Scottish Enterprise budget.

140. The Committee notes the view of the EET Committee that there would appear to be a projected shortfall of £26.3m in the Scottish Enterprise budget and invites the Government to explain how this has arisen.

Non-Profit Distributing Model
141. Draft Budget 2014-15 states that: “Progress continues to be made on delivering the full Non-Profit Distributing (NPD) pipeline of investments.”\(^{72}\) The Government estimates that projects with a combined value of £809m are due to start construction in 2014-15. Table 3 below provides a comparison of the estimates of NPD financed capital investment with previous Draft Budgets.

<table>
<thead>
<tr>
<th></th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft Budget 2012-13</td>
<td>353</td>
<td>686</td>
<td>774</td>
</tr>
<tr>
<td>Draft Budget 2013-14</td>
<td>20</td>
<td>338</td>
<td>973</td>
</tr>
<tr>
<td>Draft Budget 2014-15</td>
<td>n/a</td>
<td>185</td>
<td>809</td>
</tr>
</tbody>
</table>

142. The CSFESG explained in his Ministerial statement on Draft Budget 2014-15 that in “the short term, NPD investment is lower than was originally forecast.”\(^{73}\) He set out two reasons for this. First, some NPD projects are being concluded at lower cost. Second, some projects are taking longer to be prepared and planned.

---

The SFT stated in oral evidence that “overall, longer preparation time, rather than confirmed cost savings, is the greater part of what has changed the profile.”

143. The SFT state in written evidence that “very significant progress has been made on projects in the NPD investment pipeline since our evidence in January 2013.” However, some projects “have taken longer than anticipated to bring through early project development and hence the overall build up in construction activity will be slower than that anticipated in the earlier projections which were based on high level information.”

144. In response to questioning from the Committee regarding the consistent overestimation of the delivery of NPD projects in specific years the SFT responded that “we were always clear that the figure depended on project progress” and that there “is a balance to be struck between the two competing priorities of speed and ensuring that we build the right thing.” The CSFESG also pointed out that “NPD projects which are revenue financed take longer to prepare” and “some projects have taken longer than anticipated to come to fruition.”

145. The SFT recognised that these target dates are ambitious but that by “being ambitious and by driving hard, we are pushing people to outperform historical norms.” The CSFESG agreed with the SFT that “it is better to set an ambitious target and not reach it than it is to set an unambitious target purely and simply for the device of passing it.” He does not think that “there is anything inherently wrong with the estimates that are being set out.” In response to questioning from the Committee as to whether these estimates were initially made by the SFT or Ministers the CSFESG responded that: “the overwhelming direction of designing what we were going to do in that programme came from Ministers” and not the SFT.

146. While the Committee agrees that the SFT should be ambitious, this does not wholly explain the considerable overestimation of the delivery of NPD projects in specific years and ask that the Government reviews the process for formulating these estimates.

Resource to Capital - overall

147. A key element of the Government’s economic strategy is switching over £700 million from resource to capital over the period 2012-13 to 2014-15. Table 4 provides details of the initial estimated switches.
Table 4

<table>
<thead>
<tr>
<th></th>
<th>2012-13 (£m)</th>
<th>2013-14 (£m)</th>
<th>2014-15 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>95</td>
<td>105</td>
<td>120</td>
</tr>
<tr>
<td>Enterprise Bodies</td>
<td>95.9</td>
<td>107</td>
<td>103</td>
</tr>
<tr>
<td>Scottish Futures</td>
<td>15.5</td>
<td>30.5</td>
<td>40.7</td>
</tr>
<tr>
<td>Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>206.4</td>
<td>242.5</td>
<td>270</td>
</tr>
</tbody>
</table>

148. The Government has also provided provisional outturn figures for 2012-13 which are provided in Table 5 in comparison with the previous estimates.

Table 5

<table>
<thead>
<tr>
<th>Resource to Capital Switch 2012-13</th>
<th>Spending Review 2011 (£m)</th>
<th>Draft Budget 2013-14 (£m)</th>
<th>Outturn Figures (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>95</td>
<td>95</td>
<td>86.6</td>
</tr>
<tr>
<td>Enterprise Bodies</td>
<td>95.9</td>
<td>30.3</td>
<td>23.7</td>
</tr>
<tr>
<td>Scottish Futures Fund (incl. Warm Homes/Next Generation Digital/Young Scots)</td>
<td>15.5</td>
<td>10.4</td>
<td>12.7</td>
</tr>
<tr>
<td>Housing</td>
<td>0</td>
<td>63.1</td>
<td>70.0</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>7.8</td>
<td>34.6</td>
</tr>
<tr>
<td>Total</td>
<td>206.4</td>
<td>206.6</td>
<td>227.6</td>
</tr>
</tbody>
</table>

149. The Cabinet Secretary explained the changes to the resource to capital switches in evidence on the 2012/13 Spring Budget Revision (SBR)—

“In the context of our HM Treasury budget, the planned resource to capital transfer is £227.6 million; that switching is managed within the total DEL that is available to the Scottish Government. The increase of £21 million on the figure that was provided in December 2012 as part of the response to the Finance Committee’s report on the draft budget reflects the outcome of the internal monitoring exercise in January 2013.”

150. Draft Budget 2014-15 states that the estimated resource to capital switch for 2014-15 is £165m compared to an estimate of £270m in the 2011 Spending Review. Table 6 has been provided by the Scottish Government and shows the planned switch for 2014-15.
Table 6

<table>
<thead>
<tr>
<th>Planned Resource to Capital switch in 2014-15</th>
<th>£ million</th>
<th>Reference in Draft Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>120</td>
<td>Specific budget line in table 3.03, p26</td>
</tr>
<tr>
<td>Enterprise Bodies</td>
<td>18.1</td>
<td>Within enterprise bodies line, table 4.06, p47. In addition, £41.8m of capital DEL is to be provided upfront to reduce the requirement to switch resource to capital in-year</td>
</tr>
<tr>
<td>Justice</td>
<td>25.0</td>
<td>Mostly within operating expenditure for Scottish Fire and Rescue Service (table 6.08, p80).</td>
</tr>
<tr>
<td>Rural Affairs &amp; Environment</td>
<td>2.0</td>
<td>EU Support and Related Services and Marine and Fisheries, table 7.01, p93</td>
</tr>
</tbody>
</table>

151. The planned switch within the health budget is identical to the estimate provided in Spending Review 2011 while the planned switch within the enterprise budget has been reduced from an initial estimate of £103m to £18.1m.

152. In response to questioning from the Committee on the reasons for the reduction in the planned resource to capital switch from £270m to £165m the CSFESG explained that this is in response to Barnett consequentials for 2014-15 resulting in an increase in the capital budget and reduction of £125m in the resource budget. He stated that: “I thought that the best way in which to act was to protect the plans that I had already set out to the Parliament, which involved me scaling back the resource-to-capital transfers and meeting commitments out of traditional capital.”  


He confirmed that the capital projects affected by this decision “will principally be in the fields of enterprise and housing” but that the reduced need for resource to capital transfers has not affected the planned delivery of any specific projects.

153. The Committee recommended in its report on Draft Budget 2013-14 that it “would welcome greater clarity in future draft budget documents in the presentation of proposals for resource to capital switches including reporting on the progress made in achieving these transfers.” The Government responded that we “propose it is most appropriate to report on these aspects as part of the in-year revisions and the outturn report.” However, the SBR for 2012-13 which the Committee considered in March 2013 did not appear to include a breakdown of the proposed resource to capital switch. The CSFESG subsequently wrote to the Committee on 3 July 2013 with details of the provisional outturn figures compared with the plans provided in response to the Committee’s report on Draft Budget 2013-14. However, no comparison was provided in relation to the SBR.

154. No further details have been provided in the Autumn Budget Revision (ABR) for 2013-14 in relation to the resource to capital switch for 2013-14. Table 7 sets
out the latest figures which the Committee has for 2013-14 which the Government provided following an oral question in October 2012\textsuperscript{82}.

Table 7

<table>
<thead>
<tr>
<th></th>
<th>£million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>105</td>
</tr>
<tr>
<td>Enterprise Bodies</td>
<td>70</td>
</tr>
<tr>
<td>Scottish Futures Fund</td>
<td>23</td>
</tr>
<tr>
<td>Housing</td>
<td>43</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>243</strong></td>
</tr>
</tbody>
</table>

155. The CSFESG confirmed during evidence on the ABR that the Government plans to transfer £243m in 2013-14. When asked to confirm what capital projects the money would fund he stated—

“We are discussing with relevant areas of the public service what resources require to be transferred to fulfil their capital plans…It is not simply a case of saying that a particular project requires a resource-to-capital transfer to make it happen. It would be difficult for me to give you a precise answer in that respect.”\textsuperscript{83}

156. However, he did confirm that outturn figures would be provided to the Committee.

157. The Committee recommends that all future budget revisions provide the latest available figures in relation to the transfer of funding from resource to capital.

158. The Committee asks that the Government provides a full list of the resource budgets which were reduced in 2012-13 to fund the transfer to capital.

159. The Committee asks whether the plans for 2013-14 remain as set out in October 2012.

**Resource to Capital - Health**

160. There is a budget line within the level 3 figures for the Health budget for “Provision for Transfer to Health capital” of £105m in 2013-14 and £120m in 2014-15. The level 4 figures state that this funding is the “availability of capital to support backlog maintenance, statutory compliance and equipment replacement.” The Government states that as a consequence of the switch of resource to capital “the high and significant risk backlog has reduced from £538m in 2011 to £369m in 2013.”

\textsuperscript{82} S4O-01396  
\textsuperscript{83} Scottish Parliament Finance Committee, Official Report, 4 November 2013, Col 3270
161. In relation to the 2012-13 switch the CSFESG stated in oral evidence on the SBR that—

“On health and wellbeing, our expectation was that there would be a resource to capital transfer of £95 million. We now expect that figure to be about £87 million, because the nature of the health shift is such that it is about supporting more maintenance projects. If we explore the categorisation of what constitutes capital expenditure and what constitutes resource expenditure, we see that some of the maintenance activity ends up being classified as resource expenditure.”

162. In its report on Draft Budget 2013-14 the Committee asked the Government to provide details of which NHS resource budgets had been reduced to fund the resource to capital switch. The Government responded that—

“The £95m/£105m/£120m switch over the SR period was reflected in the calculation of base NHS Board capital allocations for 2012-13 and indicative allocations for 2013-14 and 2014-15 notified to them on 10 February 2012. The resource budget allocations notified to Boards on 10 February 2012 already excluded the sums identified as part of the resource to capital transfer.”

163. The planned switch for 2015-16 is £47.5m.

164. The BMA provided evidence to the HS Committee in relation to health capital expenditure over 6 years as detailed in table 8.

### Table 8: Scottish health capital expenditure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DEL Capital</td>
<td>577.7</td>
<td>488.2</td>
<td>459.5</td>
<td>418.5</td>
<td>254</td>
<td>187.1</td>
</tr>
</tbody>
</table>

165. The Committee asks the Government to confirm with the BMA whether the figures provided in Table 8 above include the transfers from resource to capital.

166. The Committee also asks the Government to explain the rationale for showing the £120m in the resource budget for 2014-15 when health boards where notified in February 2012 that the indicative capital allocations for 2014-15 already included the £120m.

**Resource to Capital – Enterprise Bodies**

167. Draft Budget 2014-15 states that the Enterprise Bodies have a net increase of £6.8m of capital funding in 2014-15 “which includes a transfer of resource to capital of £41.8m.” This compares to an estimated switch of £103m in the 2011

---

Spending Review. The level 4 figures state that the “budget was adjusted to reflect resource to capital transfers of £41.8m (for both SE and HIE combined).”

168. However, the subsequent figures provided by the Government state that the planned resource to capital switch for 2014-15 for the Enterprise bodies is £18.1m.

169. The Committee asks the Government to explain the difference between the £41.8m of resource to capital in the draft budget and the subsequent figure of £18.1m.

Resource to Capital - Justice

170. In relation to the switch within the Justice budget, SPICe state—

“Other changes include the apparent disappearance of any capital budget for the Scottish Fire & Rescue Service in 2014-15. The plans set out in last year’s draft budget document allocated a sum of £22.3m to capital in 2014-15. The Draft Budget 2014-15 does not show any capital budget (see table 6.08). However, the total figures for that budget line in 2014-15 (resource plus capital) are almost identical in both documents. Scottish Government officials have advised that capital budget plans for 2014-15 actually remain the same (£22.3m) but the budget is sitting within the resource line with the intention that it will be transferred in-year to capital.”

171. The Government stated in evidence to the Justice Committee that “the Scottish Fire and Rescue Service…capital budget remains what it was set at, which is £22.3m, but for budget classification reasons that is shown within resource” and “there will be absolutely no operational impact.”

172. The Committee asks the Government to explain the rationale for showing the £22.3m in the resource budget for 2014-15 when it appeared as capital in 2013-14.

Borrowing

173. Draft Budget 2014-15 states that the indicative spending plans for 2015-16 assume Government borrowing of £296m for capital investment under the terms of the Scotland Act 2012. The CSFESG stated in oral evidence to the Committee that the “decision to borrow £296m in 2015-16 was designed to ensure that we were able to give the marketplace a clear forward look on the likely level of construction activity that would be undertaken in Scotland.”

174. The Government has 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.” However, the UK Government’s Command Paper states that such borrowing will be for a maximum of ten years but “a longer
timeframe may be negotiated, for example, 25 years, if this better reflects the lifespan of the associated assets.” In response to questioning on this point the CSFESG stated that the Government’s assumption of a 25 year repayment period is based on “the categorisation in the command paper and the relationship to asset life.”

175. The CSFESG stated in response to a Written Question that the cost of borrowing £296m at an interest rate of 5% would be £38m per annum over 10 years or £21m per annum over 25 years. This amounts to a total repayment of £380m over 10 years or £525m over 25 years.

176. The Committee considered the new borrowing powers as part of its inquiry on the implementation of the financial powers in the Scotland Act 2012. The Committee noted the view of Audit Scotland that these “are significant new powers and it will be important that the Scottish Government can demonstrate that investment plans are affordable, prudent and sustainable, and supported by clear borrowing policies and practices.” The Committee recommended that the revised budget process should include details of Government borrowing in future draft budgets including “the purpose and rationale for any proposed borrowing.”

177. The Committee asks whether there has been any discussions with the UK Treasury on the repayment period and terms for any borrowing and asks that it is kept informed of the outcome of any future discussions.

178. The Committee asks why the Government would prefer to repay the loan over 25 years at a total repayment cost of £525m rather than over 10 years at a total repayment cost of £380m.

Non-Domestic Rates Income (NDRI)

179. Table 9 presents the NDRI projections presented in the various Draft Budgets over the Spending Review period.

<table>
<thead>
<tr>
<th>Non Domestic Rate Income projections (£m)</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Review Draft Budget 2012-13</td>
<td>2,272</td>
<td>2,435</td>
<td>2,664</td>
<td></td>
</tr>
<tr>
<td>Draft Budget 2013-14</td>
<td>2,272</td>
<td>2,435</td>
<td>2,664</td>
<td></td>
</tr>
<tr>
<td>Draft Budget 2014-15</td>
<td>2,435</td>
<td>2,688</td>
<td>2,883</td>
<td></td>
</tr>
</tbody>
</table>

180. NDRI is forecast to rise from £2,272m in 2012-13 to £2,688m in 2014-15. This amounts to a 12.1% increase in real terms over the Spending Review period. The CSFESG stated that he is “confident that the estimates will be realised.”

---

92 S4W-17993
93 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/49234.aspx
181. During the Spending Review period large retailers that sell both alcohol and tobacco will also pay the Public Health Supplement (PHS). For 2012-13 this amounted to an additional 9.3p on the poundage rate. The Government stated in its 2011 Spending Review that “The estimated income raised from this supplement will contribute to the decisive shift in the Spending Review to preventative spend measures.” Draft Budget 2014-15 states that the supplement will continue until 2015. The CSFESG confirmed that he has no plans to replace the supplement or to replace it with a similar measure.

182. The Government has recently consulted on a review of the business rates system and an analysis of the responses has been published on its website. The Budget Adviser points out that “there is no indication of the impact that the review will have on the underlying budget assumptions” for NDRI. The Government has also published an action plan in response to the consultation which includes a commitment to “create a power to allow councils to respond better to local need and create their own localised relief schemes.”

183. The Budget Adviser notes that any discretionary rate relief scheme which is introduced by English local authorities is required to be funded “at the expense of the Council Tax payer.” She states that if the Scottish scheme is based on the scheme in England then “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.” In response to questioning from the Committee on this point the CSFESG confirmed that local authorities would need to fund the scheme from existing budgets.

184. The Committee notes that the mid-year estimate for the PHS for 2012-13 is £25.9m and asks how this money has contributed to the decisive shift to preventative spending.

Small and Medium Enterprises (SMEs) Start-ups

185. The EET Committee heard evidence in relation to the low rates of women and ethnic minorities in entrepreneurship and business start-ups. For example, the Enterprise Research Centre stated that “those populations face specific access-to-finance issues” and were “typically more likely to be discouraged borrowers.”

---

97 http://www.scotland.gov.uk/Publications/2013/09/1530/2
98 http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEBUPDATED.pdf
99 http://www.scotland.gov.uk/Publications/2013/09/2234/2
100 http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEBUPDATED.pdf
186. The EET Committee recommends that the Government provides further details of its plans for increasing the number of women and ethnic minority groups involved in business start-ups.

**Employability**

187. The Committee recently carried out an inquiry into improving the employability of individuals experiencing high levels of multiple deprivation and published its report on 3 December 2012. The Committee welcomes the work of the Education and Culture Committee (EC) Committee in seeking to build on this work as part of its scrutiny of Draft Budget 2014-15.

188. The Committee noted during its inquiry that the number of 16-19 year olds who are not in employment, education, or training (NEETs) has remained largely static over the last 10 years. The Committee also received evidence that the cost implications of NEETs in Scotland could potentially be around £1 billion annually. The Committee, therefore, shares the concerns of the EC Committee that the number of NEETs increased to 33,000 last year from 32,000 the previous year.

189. Much of the evidence which the EC Committee heard focused on the Government’s commitment under its Opportunities for All programme to offer a place in learning or training to every 16-19 year old NEET. When asked by the EC Committee to explain the increase in the number of NEETs despite Opportunities for All, Skills Development Scotland (SDS) responded that we “have made reasonable progress in challenging economic circumstances.” The Cabinet Secretary for Education and Lifelong Learning informed the EC Committee that while his target for uptake of Opportunities for All is 100% he was satisfied with the way it is being implemented. He also pointed out that Opportunities for All is an offer and that there is no obligation on young people to take it up.

190. The EC Committee has asked the Government to provide an explanation as to why there remain 33,000 young people not in education, employment or training despite Opportunities for All. It also asked how those young people who have dropped out of the programme or have refused to take part will be engaged and what resources will be required to provide such support.

191. The EC Committee also noted that the SDS budget has been reduced by £3m and that it intends to achieve efficiency savings of £16m in 2014-15. It asked the Government to explain how these efficiency savings will be made without impacting on core services.

192. The EET Committee considered equal access and participation in the policies and programmes within SDS. It has asked SDS for an update “at the midway point in 2014-15 on what improvements it has brought about with regards participation by black and minority ethnic groups and disabled people and gender alignment.”

---

103 [http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fir-12-08w.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fir-12-08w.pdf)
193. The EET Committee also note a gender imbalance of 57% male to 43% female within the Government’s Modern Apprentices (MA) programme and asks the Government to outline “what specific budget and policies it will put in place” to address this imbalance. It also received evidence from the Equality and Human Rights Commission (EHRC) which stated that diverse communities are not accessing the programme “equally”.

194. The Equal Opportunities (EO) Committee heard from many witnesses including the STUC that the MA programme is “a missed opportunity for young disabled people.” It recommends that the Government investigates the reasons why the programme “performs poorly for disabled people and other protected groups.” It also recommends that the Government “puts in place future spending plans that will ensure equality of outcomes” in relation to the MA programme.

195. Youth employment issues were also widely discussed at the Committee’s workshop sessions in Arbroath. In particular, there was a good debate in relation to the (MA) programme. SDS indicated that around 650 MAs had been awarded in the Angus area with the vast majority going to small and medium-sized enterprises. SDS suggested that this was “a good proportion.”

196. However, there was also “some discussion about the difficulties for key sectors of the local economy in Angus in benefiting from the modern apprenticeship programme.” It was suggested that whereas an employer maybe looking to recruit a single apprentice the programme “is looking for volume.” Angus Housing suggested that a “fear of bureaucracy” is an issue and that “it had noticed a decline in the number of small businesses taking on apprentices for that reason.” A lack of work experience opportunities while at school and poor literacy and numeracy skills were highlighted as barriers to young people getting into work. It was also pointed out that with costs rising generally “it is more difficult for a business to take on a young person than it used to be.”

197. The Committee notes the concerns of the EC Committee that the number of NEETs in Scotland increased last year.

198. The Committee notes the concerns of the EET Committee and the EO Committee regarding equal access to the MA programme and invites the Government to respond to these concerns.

199. The Committee asks if, and how, the four principles of financial scrutiny inform the Government’s approach to improving employability especially given the potential £1 billion annual cost of NEETs in Scotland.

---

EQUALITIES

200. The Committee has sought to mainstream equalities issues throughout this report and in addition examines the impact of the UK Government’s welfare reforms and the progress of the Scottish Government in tackling fuel poverty below.

Welfare Reform

201. The CSFESG stated in his Ministerial statement on the draft budget that: “This Government will use the resources that we have—resources intended for devolved public services—to invest £68 million in each of the next two years to limit the damage of Westminster’s welfare cuts.” He also went on to say that the Government is allocating £20m in the current financial year “to help those who are struggling the most with the costs of the bedroom tax. That funding will enable local authorities to add to their own provisions to increase discretionary housing payments to meet some of the implications of the bedroom tax.”

202. The additional £20m in 2013-14 is to be funded from savings in the enterprise portfolio budget and “underspend on the home energy efficiency in the fuel poverty budget.” When asked to explain this underspend by the EET Committee the Government explained that it related to “the uptake of the scheme given some of the processes that we have had to go through to secure agreement about the terms of the scheme with the UK Government.”\textsuperscript{108} The EET Committee asks the Government to confirm that “it has put in place the necessary measures to maximise uptake of the Home Energy Efficiency Programme” in 2014-15.

203. The Government has subsequently announced that additional funding of up to £20m will also be made available to local authorities in 2014-15.\textsuperscript{109} In a letter to the Welfare Reform Committee the Deputy First Minister stated that final “funding arrangements will be confirmed as part of the Budget Bill, following consultation on the Draft Budget.”\textsuperscript{110}

204. The CSFESG stated in evidence to the Committee that the £20m “is the maximum that is legally allowable.”\textsuperscript{111} When asked to explain this by the Committee he stated that—

“There is provision within UK legislation that enables local authorities to provide discretionary housing payments to a maximum that is set by the Department for Work and Pensions. In essence, the resources that we are making available to local authorities equip them with the maximum amount of resources with which it is possible for them to supplement the discretionary housing payments. That totals £20m.”\textsuperscript{112}

\textsuperscript{110} http://www.scottish.parliament.uk/S4_Welfare_Reform_Committee/20131018_NS-MM_additional_SG_funding.pdf
205. In response to further questioning from the Committee on this point the CSFESG stated that once a local authority has reached the maximum level of discretionary housing payments then “that is essentially the limit of its ability to ameliorate the effects of the bedroom tax.”

206. The Committee also raised this issue in evidence with the Chief Secretary to the Treasury (CST). When asked whether the Scottish Government could be penalised for allocating funding to mitigate the impact of the welfare reforms the CST responded that: “what the Scottish Government does with its block grant is a matter for the Scottish Government” in relation to devolved matters.

207. When asked what technical difficulties prevents the Government from providing further funding to support people affected by the welfare reforms the CSFESG responded that—

“What I have to consider is having a legitimate and credible way of being able to support local authority expenditure for a specific purpose; if that is to ameliorate the effects of the bedroom tax, then I must have a mechanism that will enable me to do that, which is supporting the maximisation of the discretionary housing payment system.”

208. In response to further questioning from the Committee that local authorities which have already reached the maximum level of discretionary housing payments would not benefit from the additional £20m the CSFESG stated—

“We were asked whether we would do something to support discretionary housing payments as the vehicle that we can legitimately support for local authorities to take forward, and we are fulfilling that support.”

209. The CSFESG subsequently wrote to the Committee on 12 November 2013 and stated that “the resources were allocated to local authorities on the basis of their percentage share of the eligible Discretionary Housing Payment (DHP) budget” and that “all authorities received their proportionate share.”

210. The Committee recommended in its report on Draft Budget 2013-14 that “future draft budgets provide details of the impact which the reforms are having on the Scottish budget.” The Government responded that it “accepts this point and will consider for future budgets.” Draft Budget 2014-15 provides details of the actions which the Government is taking to “mitigate the worst impacts” of the welfare reforms. However, it is not clear from the document what impact the reforms are having on the Scottish budget.

211. The impact of the reforms was one of the main issues which arose during the Committee’s workshop session in Arbroath. For example, the Committee heard that a local organisation which is meant to be teaching numeracy and

---

literacy “is increasingly finding that its time is taken up in trying to help prevent people from falling out of the welfare system.”

212. The LGR Committee highlighted a general concern that “the weight of economic and social hardship caused by the recession is being unfairly borne by the most disadvantaged and vulnerable in society.” The LGR Committee point out that the welfare reforms have “given rise to a great deal of anxiety amongst many sections of Scottish society” including local authorities.

213. The ICI Committee recommends that the narrative around the Solidarity target within the NPF should be revised to include the objectives of the Government in seeking to mitigate the impact of the welfare reforms.

214. The Welfare Reform Committee recommends that the Government “could do more to clearly show the welcome additional contribution that it has made towards mitigating the impacts of welfare reform” within the draft budget.

215. The EO Committee state that although “it is not practical for the Scottish Government to mitigate all aspects of welfare reform…we would like to see serious consideration of what additional measures can be taken, where it is reasonable, to minimise the multiple impacts on disabled people.”

216. The Committee welcomes the additional money to alleviate the impact of the welfare reforms but believes that it is important that the Government sets out the funding arrangements as part of the draft budget process.

217. The Committee would welcome a short summary of the financial impacts which the welfare reforms are having on the Scottish budget.

Fuel Poverty

218. The EET Committee states that tackling fuel poverty “remains a top priority for the Committee particularly in light of the increases announced recently by a number of the ‘big 6’ energy suppliers.” It is concerned that the current spending commitments will not be sufficient to meet the Government’s statutory target to eradicate fuel poverty as far as is reasonably practicable by 2016. The Government initially allocated £65m in 2013-14 and £66.25m in 2014-15 with the energy companies expected to provide additional investment to increase the total funding to £200m each year. Draft Budget 2014-15 states that the Government funding has now been increased to £74.2m in 2013-14 and £79.2m in 2014-15. However, the EET Committee notes that “there is a lack of clarity” regarding the funding being provided by the energy companies.

219. In its report on Draft Budget 2013-14 the Committee asked that the Government keeps it informed of the level of funding which the energy companies are investing in measures designed to eradicate fuel poverty. The Government responded that we “will ensure the Committee is kept informed.” The Committee notes that no such update appears to have been provided.

---

119 Scottish Parliament Finance Committee, Official Report, 4 November 2013, Col 3226
120 Gavin Brown MSP dissented from this paragraph.
220. The Committee asks the Government to provide an update on the progress in meeting the statutory requirement to eradicate fuel poverty as far as is reasonably practicable by 2016 including details of how this is reflected in the NPF.

221. The Committee also requests the agreed update on the detailed level of funding being provided by the energy companies and supports the recommendation of the EET Committee that future draft budget documents include this information alongside the climate change level 4 figures.

CLIMATE CHANGE TARGETS

222. One of the 16 national outcomes in the NPF is “we reduce the local and global environmental impact of our consumption and production.” Related to this outcome is the Government’s two Purpose targets—

- To reduce emissions over the period to 2011;
- To reduce emissions by 80% by 2050.

223. Both these targets are shown as improving on the Scotland Performs website and this is welcomed by the RACCE Committee. However, the RACCE Committee also notes that the statutory climate change targets for 2010 and 2011 have both been missed. It questioned the Minister for Environment and Climate Change regarding how the draft budget has addressed these missed targets and welcomes “the acknowledgement by the Minister that a renewed effort is required by the Scottish Government, in terms of both policy and finance” if the climate change targets are to be met. The RACCE Committee recommends that the Government “continue to prioritise funding for RPP2 measures in future budgets.”

224. Some of the 50 national indicators also relate to climate change including “reducing Scotland’s carbon footprint” and “reduce waste generated.” The carbon footprint indicator currently shows “performance worsening.” The Scotland Performs website states that—

“There has been an overall reduction in Scotland’s carbon footprint since a peak in 2007 when 101.1 million tonnes of carbon dioxide equivalent (MtCO2e) were produced. The latest figure of 82.2 MtCO2e during 2010 is an increase of 4% compared with 78.7 MtCO2e in 2009. This increase is due to a rise in emissions embedded in goods and services consumed together with increased direct emissions as a result of the cold weather in 2010.”

225. The RACCE Committee is concerned that a number of indicators relevant to its remit, including Scotland’s carbon footprint, are worsening and recommends that the Government addresses this as a matter of urgency.

121 http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/carbon
226. The reducing waste indicator shows “performance improving.” The Scotland Performs website states that—

“There has been a reduction in the amount of household waste generated, measured in terms of household waste arising (i.e. household waste collected by local authorities from private households or deposited by householders at recycling centres) between 2011 and 2012. The latest figure of 2.50 million tonnes during 2012 is a reduction of 106 kilotonnes (4.1%) compared with 2.61 million tonnes in 2011.”

227. The RACCE Committee in noting that this indicator is improving stated that “it had received no evidence indicating the funding available for waste measures was insufficient to deliver current policies.”

228. A number of submissions to both the ICI Committee and the RACCE Committee argue for increased expenditure on measures to reduce carbon usage and that this should be funded by redirecting resources from large scale infrastructure projects.

229. The Committee would welcome further details on the acknowledgement by the Minister for Environment and Climate Change that a “renewed effort” is required to meet the statutory climate changes targets.

230. The Committee supports the view of the RACCE Committee that “funding information for climate change mitigation measures should be published alongside publication of the draft budget.”

BUDGET INFORMATION

231. In its report on Draft Budget 2013-14 the Committee recommended that “future draft budgets present figures for the preceding year that include any in-year changes. Where necessary, these can include the caveat that these are subject to formal parliamentary approval.”

232. The Government responded that—

“The Draft Budget for 2013-14 was presented reflecting the comparative prior year figures for 2012-13 as published in Draft Budget 2012-13. This approach is to ensure a consistent and transparent, like-for-like comparison with previous years, in line with the standard protocols. It is acknowledged that the deployment of capital consequentials for 2012-13 was announced at Stage 3 of the Budget Bill however, these had not, at the point of publication of the Draft Budget 2013-14, been formally presented to or approved by Parliament. As the Draft Budget is a public document we would not wish to cut across formal parliamentary protocol.”

233. In response to questioning on this issue the CSFESG stated that “I understand the point that, for completeness, it would be tidier if what was shown in

---

122 http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/waste
the document was not the last budget that had legislative cover but the current plan.” He explained that while it has been customary to present the budget in this way he would be “happy to explore the matter.”

234. The Committee reiterates its recommendation from its report on Draft Budget 2013-14 that future draft budgets present figures for the preceding year that include any in-year changes.

European Funding

235. European funding is referred to throughout the draft budget and includes the following—

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

236. The Budget Adviser states that 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” and the “link between anticipated revenue receivable and its transition into expenditure plans are not clear.”

237. In response to questioning from the Committee on whether European funding is built into the draft budget the CSFESG stated that: “European funds are essentially a netted-off process…it is essentially a zero-sum game: the money comes in and goes back out again as part of the programme.”

238. The Committee recommends that there is greater transparency in the draft budget in relation to European funding.

Guarantees

239. The Budget Adviser notes that the 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” and that the guarantee is recorded as “unquantifiable.” She also notes that Government’s Consolidated Financial Statements for 2011/12 also “disclose a further twelve guarantees which are also recorded as unquantifiable.”

240. The Committee recommends that the Government provides clarity on the extent of guarantees provided to public bodies and advises the Committee on what consideration is given to these potential liabilities during the budget setting process.

---

124 Scottish Parliament Finance Committee, Official Report, 4 November 2013, Col 3262
241. The Committee is required to consider the budget proposal from the SPCB. The SPCB budget is drawn from the Scottish Consolidated Fund. The SPCB has a prior call on the Fund, meaning that its budget is allocated before the Scottish Government makes any other allocations. The SPCB budget includes the costs associated with the commissioners and Ombudsman which fall under the definition of SPCB-supported bodies.

242. The SPCB budget was submitted to the Committee on 7 November 2013 and the Committee took evidence from the SPCB at its meeting on 13 November 2013.

243. The SPCB has identified a total budget requirement of £90.8 million, including a one-off amount of £2.06 million in relation to the Electoral Commission costs for public awareness and guidance in relation to the 2014 referendum. Excluding the Electoral Commission funding, the remaining £88.8 million budget requirement represents a £1.9 million increase in cash terms against the budget for 2013-14.

244. The Committee notes that the budget for 2014-15 forms the final year of the SPCB’s four year strategy to make a significant cut in the SPCB’s budget and the submission from the SPCB states that it has “successfully delivered a reduction of 11% in real terms over this period”.125

245. In light of the reduction that has been achieved, the Committee asked the SPCB about the scope for future savings and the challenges highlighted in terms of indicative forecasts for 2015-15. Outlining the challenges envisaged by the SPCB, Liam McArthur MSP spoke about the context of new powers being devolved to the Parliament and “ensuring that we have the personnel and facilities to help maintain that openness and accessibility, as well as the rigour of our scrutiny functions”.126

246. The Committee welcomes the undertaking to consider future budget reductions against the need to ensure that the Parliament is able to fulfil its essential scrutiny role while remaining open and transparent in its work.

247. The SPCB budget proposal notes that the budgets for the Commissioners and Ombudsman have reduced by 16.7% in real terms against the 2011-11 baseline. However, the Committee noted that the budget submissions for 2014-15 range from a 1.5% reduction for the Commissioner for Ethical Standards to a 6.9% increase for the Scottish Information Commissioner.

248. The Committee appreciates the explanation provided in oral evidence that the increased bid from the Scottish Information Commissioner reflects the increased demand on that office in terms of applications to the Commissioner. The Committee asks the SPCB to provide in future budgets additional information to explain year-on-year changes in the budgets for the Commissioners and Ombudsman.
249. In its report on the Draft Budget 2013-14, the Committee asked the SPCB to provide an update in its budget for 2014-15 on potential savings through the possible relocation of all or most officeholders to operate “out of one hub”.

250. In evidence to the Committee, Liam McArthur MSP explained that—

“As for office-holder accommodation, I advised the committee last year that we were working with office-holders to effect savings by reducing the number of properties in Edinburgh and that we hoped that we could co-locate a number of offices on the Government estate near Haymarket. Unfortunately, that proposal fell through because the building was let to a single tenant, but we continue to look at accommodation options, particularly as one of the office-holders has been given notice to vacate the premises that they occupy by the end of March 2014.”

251. The Committee welcomes the update provided by the SPCB and notes that consideration is still underway as to how savings could be achieved. Given the indication from the SPCB that at least one officeholder is likely to be relocating in 2014, the Committee asks the SPCB to provide an early update on the budgetary impact of this relocation.

AUDIT SCOTLAND

252. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland is required to prepare proposals, for each financial year, of its use of resources and expenditure. These proposals must be sent to the Scottish Commission for Public Audit (SCPA) which is mandated to examine the proposals and report to the Parliament on them.

253. Audit Scotland submitted its budget proposal for 2014-15 and fee strategy to the SCPA on 20 September 2013. The SCPA took evidence from Audit Scotland on 10 October 2013 and provided its report on the proposals to the Committee on 1 November 2013, in line with the written agreement between the SCPA and the Committee.

254. Audit Scotland’s work is funded in two ways, direct funding from the SCF authorised by the Parliament and fees charged to audited bodies. The budget proposal sets out a funding requirement for 2014-15 of £6,601,000 which represents a cash terms increase of 0.1% on the budget for the financial year 2013-14. Income from fees in 2014-15 is estimated at £17,471,000 which, Audit Scotland noted, means that they “are able to maintain audit charges for the 2013-14 audit years at 2012-13 levels for most bodies which equates to a reduction of 2% in real terms.”

255. The SCPA has noted that the budget proposal for 2014-15 marks the final year of Audit Scotland’s four year plan to reduce the cost of public audit by 20%. In

---

128 Audit Scotland budget proposal 2014/15, page 9
its budget proposal Audit Scotland states that the costs over the four year period “are projected to decrease in real terms by 19.8%. “\(^{129}\)

256. The SCPA questioned Audit Scotland about the small increase in funding for 2014-15 which was attributed by Audit Scotland to the transfer of both police and fire and rescue services outwith local authority control where the cost of audit would have been recovered through fees. Audit Scotland indicated that the first year costs will be higher as there will be a requirement to take account of legacy systems, such as several payroll systems in operation for at least part of the year. The SCPA has indicated that it will monitor this area in future to determine whether the savings identified are achieved.

257. The budget proposal also sets out indicative requirements for the financial year 2015-16, including a future request for £1,280,000 to fit-out a new office in Edinburgh as existing leases on Audit Scotland’s two current Edinburgh premises were coming to an end. The SCPA has asked Audit Scotland to keep it informed of any changes to this projected requirement and that, when the formal budget proposal is brought forward, a clear assessment of the longer terms savings to be realised as a result of this investment is included.

258. In its report to the Parliament, the SCPA highlights potential future liability for Audit Scotland in relation to a challenge from Her Majesty’s Revenue and Customs (HMRC) about the VAT status of the Accounts Commission for Scotland. There are two elements to this potential future liability: a charge of £4.1 million to repay reclaimed VAT since 2006 and an increase in the cost of local authority audit of between £450,000 and £500,000 a year.

259. The Committee notes that Audit Scotland is in the process of challenging HMRC’s interpretation of the VAT status of the Accounts Commission and that the SCPA has asked Audit Scotland to keep it informed of discussions with HMRC. The SCPA has expressed its concern about the potential impact of this issue and has undertaken to keep the Committee informed about discussions between Audit Scotland and HMRC.

260. **The Committee welcomes the SCPA’s undertaking to keep it informed of the discussions between Audit Scotland and HMRC.**

CONCLUSION

261. **The Committee has focused its budget scrutiny this year on the NPF, and continues to monitor the progress of preventative spending. The Committee very much welcomes the NPF and the Government is to be applauded for developing an internationally recognised exemplar of an outcomes-based approach to performance measurement. It is also clear though that the NPF is not well known and in part this seems to be due to a lack of clarity regarding its purpose and intended audience. The Committee supports the development of the NPF especially in support of financial scrutiny and accountability.**

\(^{129}\) Audit Scotland budget proposal 2014/15, page 12
262. The Committee concludes in relation to preventative spending that there is some evidence of progress despite a challenging fiscal environment. However, there is less evidence of the necessary disinvestment and system and cultural change which is essential to realising the shift towards a preventative approach. The Committee would like to see a much better alignment between the NPF, draft budgets and the emphasis on a preventative approach.
ANNEXE A: INDEX OF ORAL EVIDENCE SESSIONS

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Finance Committee's webpages, at:
http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29822.aspx

23rd Meeting, 2013 (Session 4) Wednesday 25 September 2013
Kim Atkinson, Policy Director, Scottish Sports Association; Amanda Coulthard, Corporate and Community Planning Manager, West Dunbartonshire Council; Amanda Roe, Performance Manager, Aberdeenshire Council; Derek Shewan, Managing Director, Robertson Construction Group Ltd, representing Scottish Building Federation; Shona Smith, Project Manager, Scottish Borders Council; David Stewart, Policy Manager, Scottish Federation of Housing Associations.

24th Meeting, 2013 (Session 4) Wednesday 2 October 2013
Jo Armstrong, Independent Economist and Researcher, Centre for Public Policy for Regions; Robert Black, Member of Court, Edinburgh University and Former Auditor General for Scotland; Stephen Boyle, Trustee, David Hume Institute; Donald MacRae, Trustee, David Hume Institute and Chief Economist, Lloyds Banking Group Scotland; Jim McCormick, Scotland Adviser, Joseph Rowntree Foundation; and Jeremy Peat, Director, David Hume Institute.

25th Meeting, 2013 (Session 4) Wednesday 9 October 2013
Ruchir Shah, Policy Manager, SCVO; Stephen Boyd, Assistant Secretary, STUC; Kay Sillars, Information Development Officer, Unison Scotland; Martyn Evans, Chief Executive, Carnegie UK Trust; Angela O'Hagan, Convenor, Scottish Women's Budget Group; Francis Stuart, Research and Policy Adviser, Oxfam Scotland; David Walker, Sector Director, South Glasgow, NHS Greater Glasgow and Clyde; Stephen Fitzpatrick, Head of Strategic Services, Glasgow City Council; Jan Baird, Director of Adult Care, NHS Highland; Bill Alexander, Director of Health and Social Care, Highland Council; Chris Bowring, Director of Finance, NHS Fife; Douglas Dunlop, Head of Service - Children and Criminal Justice, Fife Council.

26th Meeting, 2013 (Session 4) Wednesday 30 October 2013
Barry White, Chief Executive, and Peter Reekie, Finance Director, Scottish Futures Trust.

27th Meeting, 2013 (Session 4) Monday 4 November 2013
John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Scottish Government.

28th Meeting, 2013 (Session 4) Wednesday 13 November 2013
Liam McArthur MSP, member of the Scottish Parliamentary Corporate Body, Paul Grice, Clerk/Chief Executive, and Derek Croll, Head of Financial Resources, Scottish Parliament.
ANNEXE B: INDEX OF WRITTEN EVIDENCE

Written submissions—
- Aberdeenshire Council (163KB pdf)
- Angus Council (67KB pdf)
- Capability Scotland (162KB pdf)
- Carnegie UK Trust (139KB pdf)
- CBI Scotland (272KB pdf)
- Chartered Institute of Housing in Scotland (73KB pdf)
- Children in Scotland (91KB pdf)
- Cycling Scotland (312KB pdf)
- Equalities and Human Rights Commission (139KB pdf)
- Existing Homes Alliance Scotland (79KB pdf)
- Falkirk Council (119KB pdf)
- Head of Child Poverty Action Group in Scotland (101KB pdf)
- Health and Social Care Alliance Scotland and Voluntary Action Scotland (152KB pdf)
- Joint response from ILiS and Inclusion Scotland (381KB pdf)
- National Waiting Times Centre Board (77KB pdf)
- North Ayrshire Council (127KB pdf)
- NUS Scotland (187KB pdf)
- Oxfam Scotland (335KB pdf)
- Paths for All (220KB pdf)
- SEPA (305KB pdf)
- Scottish Borders Council (73KB pdf)
- Scottish Building Federation (199KB pdf)
- Scottish Environment Link (161KB pdf)
- Scottish Federation of Housing Associations (219KB pdf)
- Scottish Natural Heritage (166KB pdf)
- Scottish Sports Association (362KB pdf)
- Scottish Women’s Budget Group (112KB pdf)
- SCVO (193KB pdf)
- STUC (139KB pdf)
- The Royal Society of Edinburgh (196KB pdf)
- Sustrans Scotland (205KB pdf)
- Transform Scotland (142KB pdf)
- UNISON Scotland (139KB pdf)
- West Dunbartonshire Council (73KB pdf)

Additional Written Submissions
- Fife Partnership (146KB pdf)
- Glasgow City Council (147KB pdf)
- Highland Council and NHS Highland (217KB pdf)
- Scottish Futures Trust (1575KB pdf)
- Scottish Parliamentary Corporate Body Budget submission 2014-15 (2487KB pdf)
- Scottish Women’s Convention (197KB pdf)
ANNEXE C: REPORTS FROM OTHER COMMITTEES AND THE SCOTTISH COMMISSION FOR PUBLIC AUDIT

- Economy, Energy and Tourism Committee
- Education and Culture Committee
- Equal Opportunities Committee
- European and External Relations Committee
- Health and Sport Committee
- Infrastructure and Capital Investment Committee
- Justice Committee
- Local Government and Regeneration Committee
- Rural Affairs, Climate Change and Environment Committee
- Welfare Reform Committee
- Scottish Commission for Public Audit
Members who would like a printed copy of this *Numbered Report* to be forwarded to them should give notice at the Document Supply Centre.