I welcomed the opportunity to debate on 20 December the Finance Committee's report on the 2013-14 Draft Budget. Following on from the comments I offered in that debate, I now enclose at Annex A the Scottish Government's written response.

I look forward to working with the Committee as we progress the Budget Bill over the coming weeks.

JOHN SWINNEY

ANNEX A

FINANCE COMMITTEE REPORT ON DRAFT BUDGET 2013-14: INITIAL SCOTTISH GOVERNMENT RESPONSE TO RECOMMENDATIONS

[Committee recommendations shown in bold, SG responses shown in normal text]

Spending Priorities

20. The Committee asks whether the SG has carried out any cost-benefit analysis or any other economic modelling of the contribution which its spending priorities make towards sustainable economic growth and if so, to provide details of this analysis.

The Scottish Government routinely takes forward analysis to assess the impact of its policies against the Government's Purpose and objectives as set out in the National Performance Framework and our *Government Economic Strategy*. Performance against these objectives is monitored through Scotland Performs. An update on the Government Economic Strategy was published alongside the Draft Budget.

Capital Investment is a central element of the Scottish Government's approach to supporting recovery, providing an immediate stimulus to the construction sector as well as long-term benefits through the creation of economic assets. It is estimated that in 2012/13, every additional £100 million of capital spending supports around 1,400 jobs in the Scottish economy.

Spending across all portfolio areas has a contribution to make to the key drivers of sustainable economic growth, as set out in the Government Economic Strategy. For example, investment in the health of Scotland's population has a vital contribution to make to delivering sustainable economic growth. As well as providing an essential public service, spending on the NHS supports the economy through improving health and well-being, leading to improvements in productivity and economic participation in general.

National Performance Framework (NPF)

32. The Committee notes that the SG has emphasised that consistent reference to the NPF is important and asks, therefore, why there is so little reference to the National Outcomes in this year's portfolio sections compared to previous draft budgets.

The National Performance Framework provides a strategic direction for policy making in the public sector, and provides a clear direction to move to outcomes-based policy making. It has done so since 2007. The draft budget document's Strategic Chapter makes it clear that outcomes are at the heart of policy making in the Scottish Government, and central to the shift towards more collaborative and partnership-oriented delivery.

This outcomes-based approach is reflected across Government policy and in strategic policy documents, such as the Programme for Government, the Government Economic Strategy, and in more detailed documents, like the Regeneration Strategy. It is also evident in our approach to preventative spend and the role of Community Planning Partnerships in the delivery of public services, our commitment to which is confirmed in the Draft Budget.

33. The Committee has agreed to carry out a budget strategy phase following the UK Spending Review to scrutinise the progress which the SG is making in delivering its own targets through its spending priorities and to take a strategic overview of the public finances in advance of the next SG Spending Review. The SG has agreed to provide an assessment of its performance to support this scrutiny and the Committee reemphasises the need to provide some linkage between spending and outcomes in the documents which are provided. It would be helpful if some of this information could be provided prior to the introduction of the Budget Bill in January.

The Scottish Government was grateful to receive subsequent correspondence from the Finance Committee about the budget strategy phase and will respond in due course.

In terms of assessment of progress on the indicators which support the National Performance Framework (NPF), the committee will be aware that progress is reported through Scotland Performs (www.scotlandperforms.com). This is a transparent and continually updated way of presenting data on the progress of the indicators in the National Performance Framework.

Capital Investment

44. The Committee asks the SG to provide further details on the reasons for re-forecasting the estimated NPD-financed capital investment and will invite the SFT to provide an update on the progress of NPD projects at a future meeting.

The investment in the NPD Pipeline overall has not been reduced. In fact, we have added £80m of schools investment to the pipeline, as announced in September. Following the publication of the OJEU notice for the Aberdeen Western Peripheral Route (AWPR) on 18 January, the total value of Non Profit Distributing projects which have entered procurement or have entered development through hub is around £1.6 billionHowever, it has taken longer than originally anticipated to develop the projects and proceed to procurement, and this has led to some reprofiling of the estimated upfront investment.

We have publicly announced changes to the timing of NPD investments on a regular basis: we announce major milestones in the progress of individual projects; we provide 6 monthly updates to the Public Audit Committee on the progress of projects with a capital value over £50 million; and the Scottish Futures Trust regularly updates its report on progress with the pipeline as a whole.

The following table indicates which projects were included in the two estimates. There is a range of reasons for the changes in timing, as these are large, complex projects, being procured by a wide range of different procuring authorities. One change was the decision not to deliver Borders Rail through NPD. Another was extensive negotiation of site access issues at the site of the new Children's Hospital in Edinburgh. However, the key generic issue is that it has taken longer to prepare projects for procurement than was originally anticipated but the benefit of this will be clear contracts delivering maximum value to the taxpayer.

	Draft Budget 2012-13 estimates	Draft Budget 2013-14 estimates
2012/13	Borders Rail M8 Schools Colleges hub	Hub
2013/14	Borders Rail M8 AWPR Schools Colleges RHSC/DCN Ayrshire & Arran hub	M8 Colleges Schools RHSC/DCN hub
2014/15	Borders Rail M8 AWPR Schools Colleges RHSC/DCN SNBTS DGRI Ayrshire & Arran hub	M8 AWPR Schools Colleges RHSC/DCN SNBTS DGRI Ayrshire & Arran Hub

45. The Committee is concerned that the revised estimates for NPD-financed capital investment were not explicitly provided in the draft budget and believes that all future draft budget reports should include updated estimates. The Committee would also find it helpful for the SG to provide details of the specific projects that underpin the NPD estimates in the draft budget.

As mentioned above, the Draft Budget will include the resource payments with respect to NPD projects once construction is completed, and unitary charges are due. At this stage, when NPD projects are still in procurement and moving into construction over the coming year, there is no budgetary impact. We can supplement the budgetary information with further details on the progress of NPD projects and the estimates of investment values as these are refined and finalised through the preparation and procurement phases. Our intention would be to continue to provide regular updates on this information through the Scottish Government and Scottish Futures Trust websites.

50. The Committee asks the SG to write to the health boards seeking clarification of their respective planned resource to capital switches for 2012-13 and 2013-14 including which resource budgets have been reduced to fund the switch and which capital projects have benefited and report back to the Committee. The Committee also asks whether there has been any assessment of the impact of these switches on sustainable economic growth.

The resource to capital transfers within NHSScotland have been provided from the additional resource funding allocated to Health at the 2011 Scottish Spending Review; as part of this funding settlement we have also provided NHS Territorial Boards with above inflation increases in resource funding in each year of the Spending Review.

Details of NHS Territorial Boards resource funding increases between 2012-13 and 2014-15 are set out below:-

Cash Increase 2012-13	Real Terms Increase 2012-13	Cash Increase 2013-14	Real Terms Increase 2013-14	Cash Increase 2014-15	Real Terms Increase 2014-15
2.9%	**0.4%**	**3.3%**	**1.3%**	**3.1%**	**1.1%**

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.

NHS Scotland has a property and asset base of circa £5 billion. Within this total 35% of the estate is over 50 years old. The State of the NHSScotland Estate report published in February 2012 stated that there was an estimated £1,010 million of backlog maintenance required to bring the standard of buildings to the required condition. Through a combination of investment in new facilities, disposals and planned maintenance expenditure the overall figure will reduce the overall backlog expenditure requirement from £1,010 million to around £535 million. Overall, Scottish Government budgeting levels should be sufficient to reduce existing high and significant clinical backlog maintenance levels for retained property to manageable levels over the next five years.

The switch from resource to capital budgets supports investment in infrastructure underpinning the Government's Economic Strategy. Government spending in this area will benefit the wider economy in terms of job creation and will ultimately drive sustainable economic growth. The main emphasis in the Health budget is on addressing backlog maintenance, much of which will be conducted through 'Frameworks Scotland'. Along with the 'hub' initiative both delivery models operate a supply chain which favours the procuring of goods and services through small and medium sized enterprises in Scotland. Since its introduction in 2009, 52 projects valued at over £448m are being delivered by the five framework delivery partners under the "Frameworks Scotland" initiative.

One significant project which has and continues to benefit from a major programme of backlog maintenance through Frameworks Scotland is Monklands Hospital which uses SME sub-contractors and suppliers, 98% of whom are Scottish and based in central belt of Scotland. It is common practice on significant projects to set up information systems that capture the profile of workers including where they are based and also the number of apprentices employed. Records of local community engagement including work placements are also typically available.

54. The Cabinet Secretary agreed that he "would be happy to provide a broader list of projects that have been secured in that respect." In a letter to the Committee dated 29 November 2012 the Cabinet Secretary confirmed that:

"The flexibility to switch from resource to capital will be used by SE and HIE to allow them to maintain momentum on a range of key capital expenditure projects and programmes." The letter also includes a list of these projects and programmes.

Further to this letter, the Committee would welcome a breakdown of the funding allocated to each project and programme as a consequence of the switch.

The capital expenditure programmes undertaken by the enterprise bodies are funded (in aggregate) by their Grant in Aid capital allocations (CDEL), capital receipts (eg from property sales) and by switching some Resource DEL to capital. Specific funding streams are not hypothecated to individual projects and it is not therefore possible to identify specific projects which are being funded through a resource to capital switch rather than through CDEL or capital receipts.

55. The Committee notes that the Enterprise Bodies have indicated that they intend to switch £30.9 million in total from resource to capital in 2012-13 compared to an estimate of £95.9 million in last year's budget and £68.7 million in 2013-14 compared to an estimate of £107 million in last year's budget. The Committee invites the SG to explain the reasons for these changes.

The figures are subject to change as a result of the complex interaction between capital receipts, capital allocations and resource allocations. In effect, the enterprise agencies aim to maximise their capital spend, firstly using any capital receipts to supplement their capital allocation, and then switching resource in addition where required beyond that. More detail is set out in their business plans.

Thus, for example, in its Business Plan for 2012-15 SE set out indicative plans for capital expenditure of between £100m and £125m in 2012-13. It was envisaged that this would be funded as follows:

Grant in Aid – Capital Allocation (CDEL)	£42.6m
Capital Receipts	£55.7m
Transfer of Grant in Aid Revenue (RDEL) to capital	£1.7m - £26.7m

The Business Plan noted that "the actual figure transferred from Grant in Aid Revenue to Capital budget will be dependent on a number of factors including progress with planned capital expenditure projects and programmes and the amount of capital receipts actually received".

SE's latest estimate of resource to capital transfer in 2012-13 is around £20m – which remains within the range set out in the Business Plan.

56. The Committee would also 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.

We propose it is most appropriate to report on these aspects as part of the in-year revisions and the outturn report. As noted above, with respect to the enterprise agencies, these figures are kept under review through the year in response to changing circumstances.

Resource to capital – Scottish Futures Funds

58. The Committee would welcome a breakdown of the resource/capital split for each of these funds.

The capital/resource breakdown for each of the Scottish Futures Funds is expected to be as follows:-

	2013/14 Provision	
	Capital	Resource
	£m	£m
Warm Homes Fund	6.5	1.25
Future Transport Fund	6.5	1.25
Next Generation Digital Fund	21	5
Young Scots fund	2.5	10

Resource to capital – housing

60. The Committee would again welcome a breakdown of the resource/capital split for each of the above budget lines within the housing budget.

The capital/resource breakdown is as follows:-

	2013/14 Provision	
	Capital	Resource
	£m	£m
Supporting Economic Growth/ Housing Supply	166.8	1.0
Supporting Sustainability	39.2	74.8
Supporting Transitions	0.0	22.1

61. More generally, the Committee expressed concern in its report on last year's budget regarding the lack of detailed information on the SG's estimated resource to capital switches and believes that it would have been helpful if the changes in the planned resource to capital switch for 2013-14 were made clear in this year's draft budget.

We note the Committee's concern. We have provided an overall estimated figure at the outset, which will then be finalised as part of the in-year financial management, and will report more detail for individual budget lines at outturn.

62. The Committee invites the SG to explain these changes and to provide updated figures for the overall resource to capital switch for 2012-13 similar to those now provided for 2013-14.

As noted above, we have provided an overall estimate for each year of what we expect to achieve through switching from resource to capital budgets and the level of capital receipts, but we have kept under review through the year the detail of how we achieve this as part of our in-year financial management. For example, the final level of switching for the enterprise agencies is dependent on the interaction with the level of capital receipts achieved through the year. We also identified that some of the housing resource spend would be used for capital investment, and this was included in the revised estimates of the contributions.

The overall estimate for the resource to capital switch for 2012-13 remains over £200m, with an additional contribution from housing budgets balancing a reduction in the earlier estimate of the likely switch within the enterprise agencies budget.

The detailed expected contributions for 2012-13 to the overall resource to capital switch as included in the Draft Budget 2013-14 are as follows:

(£ million, cash)	**2012-13**	**Reference in Draft Budget**
Health	95	Specific budget line, table 3.03, p30
Enterprise Bodies	30.3	Within enterprise bodies line, table 4.06, p45
Warm Homes/Transport fund	5.5	Table 9.09, p125
Next Generation Digital fund	4.4	Table 7.06, p92
Young Scots fund	0.5	Table 8.08, p102
Housing	63.1	Universal Home Insulation Scheme and stock transfers under Supporting Sustainability budget line and Adaptations under Supporting Transitions in table 9.10, p126
Other	7.8	Mainly Scottish Rural Development and European Fisheries Programmes, Table 7.01, p87
Resource to Capital Switch	206.6	

Maintenance Expenditure

66. The Committee will seek an update from the SFT on its work in this area.

67. The Committee seeks clarification as to whether the £400 million which the SG identifies as being the minimum amount required to resolve capital maintenance within the health budget takes account of the £320 million switch from resource to capital within the health budget over the period of the spending review.

The capital allocations to NHS Boards in respect of backlog and equipment replacement take into account the £320m revenue to capital transfer referred to. The £320 million resource to capital transfer is being targeted at addressing the £400 million of high and significant risk clinical space backlog identified in the 2011 State of the NHS Estate Report published in February 2012.

“Picking Winners”

75. The Committee invites the SG to respond to the views of Professor Kay regarding its role in the development of skills and capabilities in areas where Scotland has a genuine competitive advantage and how best to realise Scotland’s potential as having a premium brand in food and drink.

In their contribution to the Scottish Government Economic Strategy, the enterprise bodies have a relentless focus on growth. A key element of their response to the economic climate is to drive growth through building on, developing and improving the competitiveness of sectors and companies. They do this by targeting the drivers of productivity, principally through support for leadership and ambition, internationalisation and innovation with a focus on those companies and sectors that can have a disproportionate impact on the Scottish economy.

In practice, this involves a measured appraisal and evaluation of the differences between different sectors and companies in terms of their ambition, growth potential and the impact on the Scottish economy that is likely to accrue as a result of the enterprise bodies’ support. This involves focusing resources on those actions that will transform company/sector performance and which will generate the greatest impact. The approach requires in-depth knowledge of Scotland's niche sector strengths and global market opportunities. In Scotland, we are fortunate to have world class assets and resources in the shape of companies and universities with expertise in niche areas which makes us highly competitive in the global economy. This competitiveness is evident both in established sectors such as Oil and Gas, Financial Services, Food & Drink, (where we seek to exploit international market opportunities in areas such as premium products, health and provenance), and in emerging markets such as Life Sciences, Creative Industries, and Renewables (offshore wind, marine & tidal). In their support for businesses the enterprise bodies focus on those companies with the greatest growth ambitions and work with the company base to stimulate that ambition.

The success of Scotland’s Food and Drink Sector is evidenced by the latest statistics which show they achieved 99% of their 2017 £12.5 billion turnover target in 2010. They have also smashed their overseas food and drink exports value target of £5 billion by 2017 6 years early, and just recently set themselves a new target of £7.1 billion by 2017.

The sector has developed its own strategy for growth with its three key pillars being premium, provenance and health. In partnership with key public sector partners the sector intends to build on this success with an action plan focussed on continued growth and the marketing both at home and abroad of our outstanding produce.

Access to Capital

79. The Committee invites the SG to respond to the views of witnesses in relation to access to capital and, in particular, how to optimise the Scottish Enterprise seed fund.

Scottish Government established the Scottish Investment Bank (SIB) in December 2010 as a division of Scottish Enterprise.

The SIB's co-investment approach, with private sector partners, has significantly enhanced the early stage funding landscape in Scotland, and increased both the number of deals and active investors in the marketplace, compared with the level of activity delivered under the earlier SDA/SE Scottish Development Finance model, and is a remarkable improvement.

The market funding gap in the range £2m-£10m is well understood and is identified in the newly published 2009-11 update of the Scottish Risk Capital Market Report issued on Wednesday, 12th December, available through the SIB website. The Scottish Venture Fund, introduced in 2007, seeks to address this gap. The Fund invests alongside private sector investors in companies seeking to raise growth capital in the £2m-£10m range. Since its launch, this Fund has invested £49.2m alongside private sector investment of £116.2m in 60 deals.

The Scottish Seed Fund was launched in September 2006 to address market failure in the supply of risk capital to high growth start ups. Since then the Fund has invested £10m alongside £17.8m private sector investment in 125 deals. The Fund is fully financed by Scottish Enterprise and has no European Funding. Following feedback from investors and businesses, the SIB has introduced a number of improvements to the Fund including: increasing the maximum investment level from £100k to £250k; sharing diligence with investor partners; and varying diligence according to level of funds sought and market risk. However, it is recognised that these changes will take time to filter through to the market, but it is expected that they will lead to an increase in the number of deals completed. In optimising the impact of the Seed Fund, the SIB will continue to review the Fund's effectiveness, working with investors and business customers.

Housing

85. The Committee notes the recommendation of the ICI Committee in relation to the budget for affordable housing. The Committee believes that consideration is given to additional funding for affordable housing should additional funding become available.

The Government has noted the Committee's recommendation. The Government allocated £50m of the additional capital consequentials available for 2013-14 arising from the UK Government's Autumn Statement to affordable housing. This now brings the total additional funding for housing, announced in the course of 2012, to an additional £200 million.

Broadband

93. The Committee asks whether the SG has carried out any cost-benefit analysis of its digital infrastructure action plan and whether consideration has been given to prioritising internet access across the whole of Scotland as opposed to prioritising high speed broadband.

The Government commissioned Analysys Mason to undertake an assessment of the economic impact of public sector investment in next generation broadband infrastructure, as set out in the Action Plan. This concluded that the roll-out will create £1 billion of direct and induced impacts, and lead to a further £2 billion in economic benefits over 15 years (2013-28).

The analysis also suggests that public sector intervention will create a significant number of jobs including:

- an average of over 800 direct jobs during the 5-year network installation phase;
- an average of another 70 direct jobs to operate the network over a 15-year period; and
- almost 14,000 indirect jobs over the same 15-year period.

The Step Change 2015 project, which comprises the Highlands & Islands and rest of Scotland procurements, will improve internet access across the whole of Scotland. Although primarily targeted towards investment in next generation broadband in areas of Scotland where the market will not go, the projects will also deliver improved connectivity to areas where next generation speeds are not yet possible, including those areas where there is currently no level of service.

This investment is essential to redistribute economic power across the country; closing the gaps in earning potential by reducing the digital divide and regenerating our remote and rural communities; and to underpin sustainable economic growth across Scotland.

The contract for the Highlands & Islands project will be awarded shortly; with the rest of Scotland procurement also on track to be concluded in the first half of 2013.

Regeneration

94. The Local Government and Regeneration (LGR) Committee focused on regeneration in its scrutiny of this year‘s draft budget. £175 million has been made available by the SG to support regeneration over the period of the Spending Review. The LGR Committee concluded that it—

> **"believes there is good work ongoing at different levels in terms of regeneration but, in the absence of clearly identifiable, meaningful and measurable outcomes, is unable to assess the effect of regeneration as regards sustainable economic growth or for any other measure."**

95. The Committee notes that the LGR Committee has indicated that it intends to conduct a wider inquiry into regeneration in 2013 and in the meantime would welcome a response to the points above.

The Regeneration Strategy 'Achieving a Sustainable Future' responds to the regeneration needs of Scotland's most disadvantaged communities. The strategy outlines the holistic approach to regeneration – reversing the economic, physical and social decline of places where market forces alone won't suffice.

The strategy outlines the supporting outcomes to deliver our vision for regeneration in Scotland. These outcomes cross policy areas and recognise that successful regeneration cannot be delivered without investing in development, growing local economies and delivering sustainable employment.

The Government has convened a High Level Working Group for Regeneration, chaired by the Minister for Housing and Welfare. The group will discuss the progress of the regeneration outcomes in meeting national outcomes and how these can be embedded within delivery across all public sector agencies, including consideration of balancing economic opportunity and need.

Skills and employment

111. The Committee's report on employability states that a "key message from the private sector is the need to involve business representatives and individual businesses of all sizes in the design of employability and labour market initiatives and programmes both at a national and a local level." The Committee looks forward to the response from the SG to the recommendations in its report on employability.

The Government agrees that it is important that employers and employer representatives are involved in the design of employability and labour market initiatives. Working for Growth, the Government's employability framework, highlights the importance of employers to strengthening local partnerships – much good practice already exists in the development of employer led training opportunities across Scotland. We will continue to promote this good practice.

I plan to write separately to the Committee to respond to the recommendations in its employability report.

Non-Domestic Rates Income (NDRI)

118. The Committee asks that if there is any shortfall in NDRI that the Cabinet Secretary writes to the Convener as soon as is practical after this becomes apparent. Further to last year's draft budget report the Committee again asks that it receives more regular reports on NDRI collection performance.

All NDR income projections and actual returns are subject to regular monitoring as part of the normal Budget cycle process as soon as more up to date data becomes available. If any adjustments for future year estimates are necessary they would be brought to the attention of the Parliament and its Committees for scrutiny through the Budget process at the first appropriate opportunity.

As I made clear to the Finance Committee earlier in 2012, I am content that the current level of information regarding NDRI available to Parliament is sufficient for monitoring purposes. In addition, the Scottish Government lays before Parliament an annual Non Domestic Rating Account which sets out the full details of all sums collected by local authorities and the distributable amounts paid back to local authorities.

Public Sector Procurement

125. The Committee asks the SG what consideration it has given to the impact of EU public procurement directives on SMEs in consulting on the proposed Procurement Reform Bill and asks that the SG considers and responds to the recommendations of the EET Committee at paragraphs 121-123.

The proposed aim of the Procurement Reform Bill is to establish a national legislative framework for sustainable public procurement that supports Scotland's economic growth by delivering social and environmental benefits including community benefits, supporting innovation and promoting public procurement processes and systems which are transparent, streamlined, standardised, proportionate, fair and business-friendly. It will maximise the impact of the £9 billion annual procurement spend and ensure that public procurement in Scotland delivers environmentally sustainable and socially responsible and innovative goods, services and works.

We are determined to ensure that the public sector across Scotland makes the best use of the potential on the use of Community Benefits clauses in public contracts. By making use of such clauses, we can open up opportunities for local organisations – including the supported employment sector and other social and community enterprises – to compete and to provide goods and services to Scotland’s public sector.

Since introducing guidelines on the use of Community Benefit clauses in public contracts, a commitment to over 3,500 targeted recruitment and training opportunities has been achieved in contracts across the wider public sector.

We have asked in the consultation on the Bill of views on making it a requirement that those awarding major contracts must consider including community benefits clauses and publish, with the contract notice, a statement of their approach to delivering these benefits through the contract or the reason why the contract is not considered suitable for inclusion of community benefit clauses.

We intend to use the Bill to ensure that contract opportunities are advertised through Public Contracts Scotland – helping Scottish businesses find and win contracts; and that public bodies adopt transparent, streamlined, proportionate, standardised procurement processes that are business-friendly.

The Public Contracts Scotland portal was launched in 2008 to provide easy online access to contract opportunities. It now has over 60,000 suppliers.

We are already working with SMEs to improve access to contracts. Of the businesses winning contracts through PCS last financial year, 79% were registered as SMEs, 79% were registered with a Scottish address; and 64% were registered as being both Scottish and SMEs

Inconsistency in the way pre-qualification process is undertaken by different public bodies has been highlighted by suppliers as one of the barriers to their participation in the public sector market. To address this, following extensive consultation with business and the wider public sector, we have introduced a standardised suite of questions to test supplier capacity and capability. These are now being rolled out across the public sector through PCS Tender.

We are also piloting the use of Public Contracts Scotland to advertise sub-contracting opportunities – the contractor on the Gartcosh Crime Campus has advertised 43 sub-contract opportunities to date, and awarded 29 contracts (value of £23.8m); 27 of which (value of £23.7m) went to firms registered on PCS with a Scottish address and 24 of the contracts (value of £13.3m) going to SMEs registered on PCS with a Scottish address

The Consultation ended in November and we are currently analysing responses

The Scottish Government has been active in seeking to influence the negotiations on new European procurement legislation throughout 2012. We have pressed for a change to the rules to allow public bodies to take account of socio-economic impact in their contract award decisions, and for a significant increase in the threshold levels at which the legislation applies. We believe that public bodies should be able to take account of socio-economic impact when awarding public contracts in specific cases, where justified on public policy grounds in order to promote sustainable economic growth. Agreement on negotiations is expected to be reached within the first half of this year.

PROGRESS ON RENEWING PUBLIC SERVICES

Preventative Spending change funds

134. The Committee is concerned about the timescales involved in developing the monitoring and evaluation processes for each of the Change Funds and invites the SG to confirm when this work will be completed.

(See response to Paragraph 135 below)

135. The Committee is also concerned about the lack of information regarding the amount of funding which has been allocated to the Change Funds and recommends that the monitoring and evaluation frameworks include spending details.

The Government 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.

While the individual Change Funds will each evaluate their impact over the short to medium term (see below for detail), it is clear that preventative activity needs to be taken beyond the change funds. The Government recognises that co-ordinating a national-level assessment of the complex effects of many local-level decisions in the long term, will present a significant challenge.

We will therefore draw upon national and international expertise and advice, alongside what we are learning from practitioners on the ground in Scotland to establish such a cross sector evaluative framework.

<u>Change fund specific information</u>

Reshaping Care for Older People Change Fund

Partnerships continue to be required to record and report on progress over the whole 4 year period of the Change Plan lifecycle, running from 2011/12 until 2014/15.

A shared learning framework has been developed to ensure that progress from change fund and wider efforts are understood both locally and nationally. Support is being provided to Partnerships by the Joint Improvement Team in association with Health Analytical Services and Health Scotland to assist them in assessing impact of their work. This includes sharing best practice on demonstrating impact; dedicated support for three partnerships to develop outcomes planning frameworks to plan, monitor and evaluate reshaping care interventions.

Information on Reshaping Care Change Fund allocations has been published in each of the two years since the Fund's inception.

Early years change fund

The Early Years Taskforce will shortly issue guidance to Community Planning Partnerships on the operation of the Early Years Change Fund. The guidance highlights the need for Integrated Children's Services Plans (already required under the Children (Scotland) Act 1995) to;

- be ambitious and
- to describe how the use of total resources available to the CPP will change over time to be more readily directed towards meeting the needs of vulnerable children and their families through early intervention and preventative approaches and to evidence this journey through different methods of evaluation.

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.

Reducing Reoffending Change Fund

Funding for Year 1 of the RRCF was issued in October 2012. £1.5m was issued via 29 grants - 15 to organisations delivering mentoring services this year and 14 to groups of third and public sector organisations to assist work to develop effective Public Social Partnerships ahead of the second funding stage.

The SG's Justice Analytical Services, on behalf of the Community Justice Division, is currently commissioning an evaluation of Year 1 grants issued to support the development of PSP partnerships. This evaluation will assess what is working and not working around the PSP process, and why, and to identify the potential strengths and weaknesses the PSP model has.

Research will be conducted between January-March 2013 and the final report received in April 2013.

136. The Committee asks the SG to write to all 32 local authorities and the health boards seeking an update of the funding which has been allocated and is likely to be allocated by each of them to each of the Change Funds since the publication of the Spending Review 2011, including how much is additional funding and how much is refocusing existing activities towards a preventative approach and to report back to the Committee.

The Scottish Government is already aware of local authority contributions to the Early Years Change Fund and, regarding the Reshaping Care for Older People Change Fund, wrote on 15 November 2012 to all 32 local health and social care partnerships, including to request the completion of a Financial Summary that identifies the local authority contribution.

With regards to EYCF the 2012-13 budgets have been set by Local Authorities and the 2013-14 and 2014-15 allocations will be confirmed in due course when Councils formally set their budgets for those years..

In addition, the returns from CPPs as part of the Early Years Change Fund Guidance will include a request for details from local partnerships regarding additional spend and a move to preventative spend. This information will be available by autumn 2013.

137. Given the commitment to allocate £500 million to the Change Funds and that the level of any local authority contribution is determined at a local level the Committee invites the SG to explain how it will approach any shortfall in the £500 million arising from a lack of funding at local authority level and how this is monitored.

Local government is fully committed to making an appropriate financial contribution to the Reshaping Care and Early Years Change Funds, and, as has been agreed, is not currently a contributor to the Reducing Reoffending Change Fund.

Monitoring of local authority contributions is covered in our response above to paragraph 136. If any shortfall arises, we would raise the matter with COSLA Leaders.

Early Years and Early Intervention Change Fund

142. The Committee invites the SG to provide updated figures for the Early Years and Early Intervention Change Fund for each of the three years of the Spending Review period including an explanation of the reduction in the allocation from the Health, Wellbeing and Cities portfolio.

The 2012-13 Draft Budget states that the Health and Wellbeing portfolio will contribute £20m/£45m/£50m (£115m) to the Early Years Change Fund over the Spending Review period, 2012-13 to 2014-15.

In October 2011 Health Finance provided up-to-date analysis of the expenditure to £36m/£39m/£42m over the same 3 year period, a total investment of £117m as published in the Early Years Taskforce Vision and Priorities paper.

This adjustment to the phasing of spend maintained the original overall target and was considered reasonable based on current levels of expenditure.

Reshaping Care for Older People Change Fund

149. The Health and Sport Committee "recommends that Scottish Government Health Directorates (SGHD) be clearer about its expectations for spending on preventative programmes and set out a medium and long term plan for the shift in funding it expects to see." The Committee supports this recommendation.

The National Advisory Group on Prevention has developed the following key questions to support thinking about prevention:

- Are we clear about what activities will improve outcomes and reduce future demand in our communities?
- Are we evidencing success in improving outcomes and reducing future need?
- Are we controlling costs and releasing savings?

Collaborative efforts to gather and disseminate advice, best practice and guidance and support evidence-based approaches are planned by the Advisory Group. These include a number of workstreams that will provide support at a local level including:
- peer-learning events
- Knowledge hub, providing evidence and experience of what works; and
-a logic model for evidence-gathering and evaluation.

While the Reshaping Care for Older People Change Fund has helped to shift spend in a preventative direction, its initial focus at its inception in 2011-12 lay in enabling health and social care partnerships to make better use of their total combined resources in support of better outcomes for older people. To an extent, its role has developed into a dual one - to contribute to wider preventative investment from a health and social care standpoint, as well as retain its existing focus on improving outcomes for older adults. The Fund also represents a significant stepping stone in the development of SG proposals to integrate adult health and social care, in enabling local partners to access the bridging finance they require to make the changes they need.

In responses to other parts of this Report, the Government has been clear about the importance of systematic monitoring and evaluation of the Fund's impact and have already described the arrangements for this in some detail. Future Change Fund expenditure to 2015 will be explicitly linked to delivery of joint commissioning strategies – an important element of the integration proposals recognised by Audit Scotland and the Public Audit Committee alike. We are seeking joint strategic commissioning plans for 2013-14 from local partners by the end of February 2013. These plans acknowledge the Change Fund's role in preventative expenditure, and we expect to be able to report partnerships' intentions regarding preventative spend in more detail to Ministers and Committee members alike in due course.

150. The Committee also asks whether there has been any further review of the progress of the Change Fund by the JIT and, if so, whether this will be published.

JIT's Mid Year Review Report will be circulated to Health and Sport Committee members following its consideration by the Ministerial Strategic Group on Health and Community Care on 19 December 2012.

http://www.jitscotland.org.uk/action-areas/reshaping-care-for-older-people/change-fund-plans/

Commission on the Future Delivery of Public Services (Christie Commission)

155. The Committee would welcome an update from the SG as to whether it intends to introduce a new set of statutory powers and duties as recommended by the Christie Commission.

The Scottish Government and COSLA jointly led a review of community planning in early 2012, and subsequently agreed a package of measures to strengthen and make it more effective. Those measures include:

- strengthening duties on individual partners through a new statutory duty on all relevant partners, (whether acting nationally, regionally or locally), to work together to improve outcomes for local communities through participation in community planning partnerships and the provision of resources to deliver those outcomes as set out in their Single Outcome Agreement; and

- placing formal requirements on Community Planning Partnerships by augmenting the existing statutory framework to ensure that collaboration in the delivery of local priority outcomes via Community Planning and the SOA is not optional and is made as effective as possible.

Although no final decisions have been taken, it is envisaged that these new duties will form part of the proposed Community Empowerment and Renewal Bill.

The measures agreed following the review also included creation of a joint group at national level to provide strategic leadership and guidance to CPPs. That group has agreed an approach to SOAs that includes their having a clear focus on prevention and on reducing inequalities within populations and between areas. The Scottish Government and COSLA have agreed guidance to CPPs reflecting this approach, which was published on 4 December 2012. That guidance calls for CPPs to prepare draft new SOAs on this basis by 1 April 2013 for agreement with the Scottish Government by 28 June 2013.

McClelland Review of Information and Communications Technology (ICT) Infrastructure

159. The Committee notes the concerns of the Justice Committee that "ICT systems are not as advanced as expected at this stage" of the police reforms and asks how the findings of the McClelland Review are informing this process.

Police Reform is the most ambitious reform in a generation and will place Scotland at the vanguard of UK policing, while protecting frontline services from the impact of the reductions that have been made to the overall Scottish Budget through the UK spending review.

ICT is a matter for the Scottish Police Authority. The Scottish Government is supportive of the service's decision to conduct a full review of its police ICT projects ahead of police reform and through the Police Reform budget (within the Police Central Government budget) is currently funding a number of ICT specialists within the Scottish Police Services Authority (SPSA) who will transfer to the Scottish Police Authority.

160. The Committee invites the SG to provide the agreed annual update on progress including details of savings and efficiencies achieved as a consequence of implementing the McClelland review recommendations.

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 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.

OTHER ISSUES

Scotland Act 2012 Implementation

166. The Committee asks why no money appears to have been allocated for Scotland Act implementation issues other than for 2013-14.

Costs in 2012-13 associated with implementing the financial provisions in the Scotland Act 2012 are expected to arise almost entirely from administrative activity such as preparing for and running consultations on the devolved taxes and preparing draft legislation. These costs fall to be met from the existing administration budget. However there may be minor costs arising from work done by HMRC and charged to Scottish Government. These will be charged appropriately. If there is a need to seek approval to adjust existing budgets, this will be done through the Spring Budget Revision 2012-13.

As regards 2014-15, cost estimates were not included in the September 2011 Spending Review because the Scotland Bill had not at that stage received Royal Assent. It would not be appropriate to use the draft Budget for 2013-14 to signal the need for spending in 2014-15, and in any case further work is needed on the timing of estimated expenditure beyond March 2014.

167. The Committee also seeks clarification on when the costs of implementing the SRIT are likely to arise, what mechanisms are in place to agree and monitor these costs with HMRC and whether there has been any update on the initial estimate of £45 million.

HMRC have now established arrangements to plan and progress the implementation of the Scottish rate of income tax, which is expected to commence in April 2016. This planning work will produce updated cost estimates in due course, including an indication of when the costs will arise. An estimate of £3m has been included in the draft Budget 2013-14 on the basis of early discussions between HMRC and Scottish Government. HMRC indicated in evidence to the Public Audit Committee on 21 November 2012 that they expect to include additional cost information in their first statutory report on implementation of the financial provisions of the Scotland Act in Spring 2013.

Arrangements for agreeing, monitoring and meeting costs relating to implementing SRIT will be set out in a Memorandum of Understanding (MoU) between the Scottish Government and HMRC. A draft of the MoU has recently been reviewed by both the Finance Committee and the Public Audit Committee, and both Committees have provided comments. The MoU will now be discussed and agreed between Scottish Government and UK Government Ministers.

168. As part of its on-going scrutiny of the implementation of the Scotland Act the Committee has agreed to take evidence from HMRC officials on an annual basis and will seek to monitor costs through that process.

The Scottish Government notes the Committee's intention. We also note that the annual statutory reports on implementation of the financial provisions of the Scotland Act to be produced by both the Scottish and UK Governments and laid before both the UK and Scottish Parliaments under section 33 of the Scotland Act will provide information on progress and will set out cost estimates.

Active Travel

171. The Committee suggests that the provision of more level 4 figures across the transport budget would assist the ICI Committee in identifying where the additional money for active travel could be found.

All level 4 information has been provided to the committee via SPICE. No further dis-aggregation of budgets is undertaken and therefore no further level 4 information is available.

Equalities

Welfare Reform

179. The Committee notes the action which the SG is taking to mitigate the effects of welfare reform and recommends that future draft budgets provide details of the impact which the reforms are having on the Scottish budget.

The Government accepts this point and will consider for future budgets.

180. The Committee also asks the SG to provide an update on any Barnett consequentials arising from welfare reform and how the SG intends to allocate these.

The Government will provide an update on the allocation of any consequentials in due course.

Social Fund Successor Arrangements

186. The Committee invites the SG to provide details of which budget lines will be affected by the £9.2 million for the social fund.

The lines affected will be Miscellaneous Welfare Reform (+9.2) and Rail Franchise (-9.2). The reduction in Rail Franchise reflects the anticipated level of outperformance against the delivery of rail services. Both budget lines are within the Infrastructure Investment and Cities Portfolio.

Fuel Poverty

189. The Committee invites the SG to keep it informed of the level of funding which the energy companies are investing in measures designed to eradicate fuel poverty.

The Government notes the Committee's request to be kept informed of the level of funding which the energy companies are investing in measures designed to eradicate fuel poverty. We will ensure the Committee is kept informed.

Access to Budget Information

203. The Health and Sport Committee stated that: "For adequate scrutiny by the Parliament, as well as for effective partnership working, SGHD must place much more of its data and planning in the public domain." The Committee recommends 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.

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.

204. The Committee also recommends that where information within the draft budget relates to several financial years that a breakdown is provided for each year.

The Draft Budget will cover the relevant financial year in the first instance, supporting the subsequent introduction of the Budget Bill, with additional information to give context where appropriate. As standard practice the Annexes to the Draft Budget provide additional financial information and Annex D table 4, records a comparison from 2008-09 to 2014-15 to help provide context.

Level 4 Figures

206. The Committee welcomes the improved arrangements for provision of Level 4 information. The Committee notes however that the provision of level 4 figures was not universal and asks the SG to provide an explanation in areas where level 4 figures were not available.

The Scottish Government provided level 4 information for all budgets where such detail forms part of the budget analysis below the published budgets at level 3. In so doing, the Government has provided a more detailed breakdown than has been the case at any time previously, under any Scottish administration. As the Government has made very clear when providing this information in the past, there is no single definition of Level 4 and there is a wide variation across programme areas, including where significant resources are allocated to delivery partners for deployment.

Where there is a specific request from the Finance Committee or the Subject Committee for additional information to support discussion of the Draft Budget, the Scottish Government will endeavour to provide additional detail where possible.