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20 February 2018

Dear Bruce,

I welcomed the opportunity to debate the Finance Committee's report on the 2018-19 Draft Budget alongside Stage 1 of the Budget Bill. Following on from the initial comments I offered in that debate and my evidence to the Finance and Constitution Committee on 7 February, I now enclose the Scottish Government's formal written response. I believe the Scottish Fiscal Commission will be writing to you separately to respond directly to recommendations relevant to them.

I hope the Committee finds this information helpful.

Yours
DJ Mackay

DEREK MACKAY

ANNEX A

<u>The Scottish Government welcomes the Committee's report. Responses to each of the Committee's recommendations are presented below.</u>

5. The Committee recommends that the SPCB should consider what additional support needs to be given to Members to ensure the effectiveness of the new budget process.

We note this recommendation, to which the SPCB will respond.

STRATEGIC CONTEXT FOR DRAFT BUDGET 2018-19

Fiscal Framework

31. The Committee has repeatedly stated that full transparency is an essential element in securing public confidence in the operation of the Fiscal Framework. It is, therefore, not acceptable that the CST or any other UK Minister is unwilling to appear before the Committee to discuss the block grant.

Noted.

36. While the Committee welcomes the level of detail provided by the SFC in providing an understanding of its forecasts for economic growth and devolved tax revenues this only provides a partial explanation of the impact of these revenues on the size of the budget. These forecasts need to be understood in relation to the equivalent forecasts for the adjustment to the block grant which is the responsibility of HM Treasury.

We note this recommendation, to which the SFC will respond.

37. While the Committee welcomes HM Treasury's publication of the BGA calculations there is no accompanying narrative explaining the year on year changes to the adjustments to the block grant. Yet the changes to the size of the adjustments to the block grant are equally as important in influencing the size of the budget as the revenue forecasts provided by the SFC.

We note this recommendation, to which the SFC will respond.

38. The calculations for working out how the net impact of the block grant adjustments and the revenue forecasts will impact the annual Budget will become increasingly complex as outturn figures become available for income tax. While the SFC can be expected to provide a comprehensive analysis of the complexity of this process in relation to their revenue forecasts there is no equivalent independent analysis currently provided for the block grant adjustments.

We note this recommendation, to which the SFC will respond.

39. The Committee, therefore, recommends that the OBR should have responsibility for publishing an independent analysis of the year on year changes to the adjustments to the block grant as part of its devolved taxes forecast. This should include an evaluation of the forecasts which inform the BGA against the outturn figures.

Noted.

40. The Committee notes that while there is some merit in comparing the OBR forecasts for the devolved taxes with the SFC forecasts the more significant issue for the size of the Scottish budget is comparing the SFC forecasts with the OBR forecasts for growth in the equivalent taxes in the rest of the UK. The Committee, therefore, recommends that the SFC should provide this comparative data in future forecast reports.

We note this recommendation, to which the SFC will respond.

46. The Committee asks the Scottish Government to provide a breakdown for each devolved tax of the difference between the BGA and tax revenues for 2016-17 following the reconciliation process.

	LBTT	**Landfill Tax**	**Combined**
Revenues (Outturn)	£484m*	£149m	£633m
BGA (Outturn)	£534m	£131m	£665m
Net difference	-£50m	£18m	-£32m

** Figures does not include adjustments for retrospective ADS repayments*

47. The Committee asks the Scottish Government to provide details of how it addressed the £40m shortfall arising from forecast error for the revenue receipts for the devolved taxes in the 2016-17 Budget. The Committee also asks the Scottish Government how it intends to address the shortfall of £65m arising from forecast error in relation to the BGA for 2016/17.

Variance between forecasts and outturn is normal and something we would expect to have to manage each year. The £40m forecast variance within 16-17 was managed within the year as part of the overall budget management strategy. The £65 million increase in the block grant adjustment was anticipated at an early stage in planning for financial year 2017-18 and is also being proactively managed within our established in-year budget management processes through a combination of offsetting underspends carried forward from previous years through Budget Exchange and in-year emerging underspends.

48. The Committee notes that the budget will become increasingly complex once the reconciliation process for the devolved taxes becomes fully operational and that transparency is essential. The Committee, therefore, welcomes the Budget Process Review Group recommendation to introduce a Fiscal Framework outturn report. The Committee’s view is that this must include outturn adjustments to the block grant which presumably will need to be provided by HM Treasury.

The Committee recommends that the Cabinet Secretary pursues this matter with HM Treasury Ministers.

The Scottish Government welcomes the Budget Process Review Group recommendation to introduce a Fiscal Framework outturn report. We are pursuing the availability of outturn data with HM Treasury to inform the report.

49. The Committee believes that it is essential that we have the opportunity to consider the impact of the reconciliation process on the public finances prior to the publication of the budget and therefore welcomes the Budget Process Review Group's recommendation that the outturn report is published annually in September.

Noted.

63. The Committee notes that while per capita GDP growth in Scotland has largely tracked the UK since 1999 a gap has begun to appear over the past two and a half years. Our Adviser points out that the SFC implies that the recent weaker performance of the Scottish economy is structural rather than cyclical. While it is not clear what the impact will be on income tax revenues there is nevertheless some risk to the public finances which will require close monitoring by both the Scottish Government and the SFC.

SFC economic growth forecasts underpin their forecasts of income tax receipts, but are not the only determinant. Changes to income tax revenue forecasts relate to the tax base, and reflect growth in the number of taxpayers, their income, and the income distribution as well as the Scottish Government's policy decisions. The SG recognises that there will always likely be some variability between forecasts and final outturn figures and the significant economic uncertainty that we are experiencing as a result of Brexit makes forecasting arguably more difficult. Income tax will account for around 30% of the Scottish Government Budget in 2018/19 and the Scottish Government will closely monitor the performance of Scottish tax receipts. HMRC will provide regular Real Time data to the Scottish Government on Scottish income tax receipts and this will be used as part of internal risk and cash management processes. The SFC will also produce regular forecast evaluation reports, which will further aid monitoring of receipts and support improvements to forecast methodology.

The Scottish Government also intends to focus on measures to grow the Scottish economy, as demonstrated by the £270 million increase on economic spending announced in the draft Budget.

BREXIT

83. The Committee reiterates its intention to undertake further work on funding of competences currently provided for by the EU. The Committee also notes the concerns expressed by the ECCLR Committee and agrees that the Scottish and UK Government should begin work on agreeing replacement funding streams for all current EU funding sources as a matter of urgency.

The Scottish Government welcomes the Committee's plans to undertake this work. It is crucial that repatriated powers transferred to the Scottish Parliament are accompanied by a sustainable funding package. This will ensure that decisions can be taken in the best interests of the Scottish economy and Scottish people.

EU funding benefits Scotland significantly, supporting jobs, delivering infrastructure, sustaining rural communities, providing valuable support for the farming and fishing industries and delivering research funding for universities. The current EU funding round is expected to benefit Scotland by around £5 billion over the life of the current EU budget round (2014-2020). Should it be formally agreed, the commitment in the UK/EU joint report that the UK will continue to participate in the EU's Multi-annual Financial Framework and related EU funding programmes until 2020 is welcome. However, we fully recognise that EU exit has created uncertainty for communities across Scotland who rely heavily on this investment and are unable to plan beyond the UK's departure from the EU. We note and share the concerns of the ECCLR Committee in this regard, and we remain particularly concerned that successor arrangements to replace these EU funding programmes have yet to be proposed in sufficient or meaningful detail by the UK Government. The devolved administrations must be fully engaged in decision-making on the establishment of future funding arrangements rather than being regarded as 'consultees'. The Scottish Government is continuing to engage with HM Treasury regarding EU funding and related issues, and will continue our efforts to ensure that both the financial implications of EU exit and appropriate future funding arrangements for Scotland are fully considered, in order to ensure Scotland's public finances are protected.

AFFORDABILITY

Scottish Income Tax

98. The Committee welcomes the confirmation that the proposed new bands will not result in unintended consequences to eligibility for marriage allowance for Scottish income taxpayers. The Committee asks whether other amendments to UK legislation may be required for other reliefs.

The power to administer Scottish income tax is reserved and its effective operation remains the responsibility of HMRC. Scottish Government officials have engaged with HMRC officials on this issue and have received a commitment to ensure that HMRC will have the necessary legislation in place to support the Scottish Government's policy proposals.

99. The Committee notes that the proposed changes to income tax illustrate the extent to which the tax is a shared competence with the UK Government which will inevitably increase the complexity of the tax in Scotland.

The Committee therefore recommends that it is essential that the potential impact of any proposed changes to rates and bands on income tax policy areas which are reserved is fully explained at the earliest possible date.

The Scottish Government has taken care to consider interactions between devolved and reserved aspects of income tax policy throughout the process of preparing its income tax proposals for the draft budget. HMRC has confirmed that they are able to implement the Scottish Government's income tax policy proposals and the Parliament and Scottish taxpayers will be kept informed of progress and will be able to access updated guidance on the HMRC website in due course.

117. Robert Chote explained to the Committee that weaker GDP growth means "weaker growth in all the major tax bases, so that has implications for the public finances. "lx The Committee asks the SFC to explain, therefore, why despite lower economic growth forecasts per capita relative to rUK, they forecast that income tax revenues per capita will grow at the same rate in Scotland as in rUK. In particular, why its judgements about earnings growth do not appear to be influenced by its growth and productivity assumptions.

We note this recommendation, to which the SFC will respond.

118. The Committee notes that the downward revision to the income tax revenue forecast has not resulted in a worsening outlook for the public finances as the forecast for the BGA has also been revised down. While this is welcome, due to the risks to the public finances from forecast error, there needs to be parliamentary scrutiny and wider public consideration of estimated outturn figures for income tax prior to consideration of the audited figures which are published around 15 months following the end of the financial year. The Committee, therefore, welcomes the recommendation of the Budget Process Review Group that estimated income tax outturn figures are published each September for the previous financial year.

Noted.

132. The Committee asks the SFC what evidence it examined of behavioural responses to relatively small changes to marginal tax rates including a 1p change and how this informed its forecast.

We note this recommendation, to which the SFC will respond.

133. The Committee asks the Scottish Government whether its own analysis of a behavioural response to proposed income tax policy changes is consistent with the SFC analysis and whether it has had any discussions with HMRC about how to address this response.

Our views on taxpayer's behavioural responses are informed by regular discussions with experts in a number of organisations, such as the SFC, HMRC and the Office of Budget Responsibility, the Scottish Government's Council of Economic Advisers and a review of relevant academic literature.

Our assumptions about behavioural responses are set out in our discussion paper "The Role of Income Tax in Scotland's Budget" as well as in the updated analysis on the 50p top rate published ahead of the Draft Budget.

As the independent fiscal institution for Scotland, however, it is the SFC's income tax forecast that determines the amount of money the Scottish Government can draw down from HM Treasury in a given year, and this is the figure used in the Draft Budget document.

As set out in the agreed protocol between the Scottish Government and the SFC, a number of challenge meetings took place to discuss the income tax forecasting model, including the adjustments made for behavioural responses.

135. The Committee asks the SFC why it views small differences in tax rates as having little impact on forestalling behaviour yet a relatively high impact on other behavioural responses. The Committee also asks the Scottish Government whether its own analysis of the impact of forestalling behaviour is consistent with the SFC's analysis.

As the independent fiscal institution for Scotland, it is the SFC's income tax forecast, and the judgements they make on behavioural responses such as forestalling, that determines the amount of money the Scottish Government can draw down from HMRC in a given year. As set out in the agreed protocol between the Scottish Government and the SFC, a number of challenge meetings took place to discuss the income tax forecasting model, including the adjustments made for behavioural responses.

144. The Committee asks the SFC to explain whether it believes that the number of incorporations in Scotland is likely to increase relative to the rest of the UK as a consequence of the proposed income tax policy changes.

We note this recommendation, to which the SFC will respond.

148. The Committee asks the Scottish Government to confirm the additional implementation costs arising from the proposed changes to income tax policy and whether it agrees that monthly outturn data for Scottish income tax is made publicly available as soon as practicable to do so.

HMRC have estimated total implementation costs of between £20m and £25m for the Scottish Rate of Income Tax, with a further £2.6m for the Scotland Act 2016 income tax powers. These costs are required to implement the income tax powers devolved to the Scottish Parliament in Scotland Acts 2012 and 2016, and are independent of the rates and bands the Scottish Parliament sets. HMRC will provide more specific cost estimates once the Scottish Rates Resolution has been passed by Parliament.

Regular publication of outturn data is required under the Service Level Agreement and the Scottish Government is working with HMRC to ensure timeous compliance.

Land and Buildings Transaction Tax

156. The Committee notes that there has been significant volatility in the year on year forecasts for residential LBTT which would appear to be related to fluctuations in house price growth. The Committee asks the Scottish Government whether there is any risk to the public finances arising from this volatility.

Evidence shows that property transaction tax revenues are relatively volatile, not only in Scotland but across all parts of the UK. Residential revenues are subject to fluctuations in the housing market, which are often the result of wider economic and financial changes. In addition to this, the timing of property transactions is often discretionary i.e. purchases can be brought forward or deferred in response to wider economic events or impending tax changes (forestalling).

However, if there is a correlation between the factors affecting the performance of LBTT revenues and SDLT revenues, the overall risk to Scottish public finances will be mitigated by the block grant adjustment mechanism. The Scottish Government also undertakes regular in-year monitoring of both Scottish and ruck revenues as well as relying on broader financial management flexibilities, including the Scotland Reserve, to manage volatility in receipts. The latest published outturn data shows that LBTT revenues across 2015-16 and 2016-17 were close to forecast.

157. The Committee asks the SFC whether it considered the impact of the Aberdeen housing market on its LBTT revenue forecasts in its most recent report.

We note this recommendation, to which the SFC will respond.

160. The Committee asks the SFC whether it considered the possibility of longer term behavioural responses to residential LBTT other than in relation to fiscal drag.

We note this recommendation, to which the SFC will respond.

165. The Committee notes that the 2016-17 outturn figures for ADS are nearly three times higher than the initial Scottish Government forecast. The Committee, therefore, asks the Scottish Government whether it has reviewed whether the supplement at its current rate is delivering the policy objectives as stated when it was introduced.

2016-17 was the first year the Additional Dwelling Supplement operated in Scotland. The lack of previous tax data at both Scottish and UK level and also the lack of definitive data on the buy-to-let and second homes markets in both Scotland and the UK made the forecasting of tax 2016-17 revenues particularly challenging. Revenue forecasts for the equivalent tax in the rest of the UK were subject to similarly large margins of variance as discussed by OBR in their Forecast Evaluation Report, October 2017: "*The measure has raised much more than originally expected – our latest estimate for 2016-17 is £1.6 billion compared to £0.7 billion in the original costing.*"

The Scottish Government is monitoring ADS data closely as part of the on-going approach to devolved tax management.

166. The Committee asks the SFC why its forecasts for ADS for 2017-18 and 2018-19 are the same as the outturn figure for 2018-19 when it is forecasting higher average house prices and a higher number of transactions.

We note this recommendation, to which the SFC will respond.

200. The Committee asks the Scottish Government to provide an update on the status of the reclassification of NPD schemes and the implications for the government's borrowing capacity in 2017/18 and 2018/19.

In 2017-18 the capital budget cover provided for the NPD schemes as a result of reclassification was £234 million. This was factored into the capital allocations within the 2017-18 Draft Budget which included the expectation that the full £450 million in borrowing available in 2017-18 will be required.

As set out in the Draft Budget 2018-19 the intention is to borrow £450 million to invest in infrastructure and support our capital investment plans in 2018-19.

Four of the five projects affected by reclassification have already completed, or will complete construction by the end of 2017-18, therefore no further budget cover is anticipated for these in 2018-19 in relation to the NPD element. The only budget for the NPD projects in 2018-19 is £33m for Balfour Hospital in Orkney. It should be noted that although this project was planned to be an NPD project and was affected by ESA10 it was further behind in procurement than the others therefore the majority of this project is capital funded with only a small NPD element of £5.1m.

Scotland Reserve

205. The Committee asks the Scottish Government to provide the following information in relation to Table 1 in Annexe 1 of the Draft Budget document – a breakdown in terms of capital and resource and the current balance of the Scotland Reserve.

The £158m shown in table 1 of Annex A is split £64m in Resource, £55m in Capital and £39m in Financial Transactions. On the basis of the latest 2017-18 budget management information, this is expected to be funded from emerging underspend in 2017-18. Detail of the available funding and the budget managements position as at December 2017 will be provided to the Finance Committee as part of the Spring Budget Revision process.

206. The Committee reiterates its view that there is a need for greater transparency around the balance of the Scotland Reserve. The Committee therefore welcomes the recommendations of the Budget Process Review that detailed information in relation to the operation of the Scotland Reserve should be provided in the annual Fiscal Framework Outturn report.

Noted.

Long-Term Investment Commitments

210. The Committee notes that the Draft Budget does not contain details of the anticipated revenue financing costs of infrastructure projects in 2018-19.

The revenue requirements for infrastructure projects are contained within individual portfolio allocations however for those projects that have reached financial close a list of unitary charges payable by project is published separately on the Scottish Government website and is updated during the year.

http://www.gov.scot/Topics/Government/Finance/18232/12308

211. Recognising that there will be commercial sensitivities in relation to individual deals, the Committee reiterates its view from previous reports that the Scottish Government explores the practicability of publishing the underlying data behind Figure 1 of the Draft Budget. The Committee therefore asks again if this can be done in a way which protects commercial sensitivities, given the aggregate nature of the figures requested.

This table shows the breakdown of current and planned commitments. These are the best estimates available at the time but unitary charges may vary with inflation. These figures are updated annually. The table shows the peak of committed projects at 3.88% in 2019-20 with projected and committed projects peaking at just under 4.3% of total annual budget limit in 2020-21.

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Current Contractual Commitments:										
Unitary charges on existing PPP/NPD projects (pre current pipeline)[1] paid by SG	570	595	606	605	613	618	622	617	622	611
RAB Commitments [2]	298	426	447	463	427	336	419	429	440	451
NPD Pipeline Commitments [3]	1	6	15	54	153	202	211	216	216	216
Total Current Commitments	**869**	**1027**	**1068**	**1122**	**1193**	**1156**	**1252**	**1262**	**1278**	**1278**
As % of projected Annual Total Budget Limit	**2.99%**	**3.47%**	**3.54%**	**3.71%**	**3.81%**	**3.63%**	3.88%	**3.79%**	**3.71%**	**3.59%**
Projected Additional Payments:										
NPD Pipeline	**0**	**0**	**0**	**0**	**0**	**1**	**6**	**51**	**62**	**67**
Borrowing [4]	0	0	0	9	21	70	120	120	120	120
Total Projected Payments	0	0	0	9	21	71	126	171	182	187
Total Current and Projected Commitments	**869**	**1027**	**1068**	**1131**	**1214**	**1227**	**1378**	**1433**	**1460**	**1465**
As a % of Annual Total Budget Limit	**2.99%**	**3.47%**	**3.54%**	**3.74%**	**3.87%**	**3.85%**	**4.27%**	**4.30%**	**4.24%**	**4.12%**
Annual Total Budget Limit/Projected limit [5]	**29,090**	**29,602**	**30,126**	**30,261**	**31,347**	**31,866**	**32,293**	**33,309**	**34,428**	**35,581**

The following notes apply:
[1] There are 5 NPD projects from pre 2010 which are not part of the current NPD pipeline

[2] Regulatory Asset Base (RAB) payments are payments to Network Rail which finance rail investment. The current control period ends in 2019-20. In the interests of maintaining comparability with previous periods, the years 2019-20 to 2022-23 contain estimates of the Network Rail investment as if it had been RAB funded. This will be revised as part of the production of the medium-term financial plan in response to the recommendations of the Budget Process Review Group.
[3] This is the current £3.5 billion NPD/ hub pipeline
[4] For modelling purposes, for borrowing in 2017-18 and 2018-19 an interest of 2% has been used and is over a 10 year period. Notional borrowing in 2016-17 and 2015-16 is shown over a 25 year period and with no interest charges.
[5] Total annual total budget limit is based on current unadjusted block grant totals, to 2019-20 for resource and 2020-21 for capital, thereafter based on Office for Budget Responsibility nominal GDP growth estimates.

PRIORITISATION

Local Government

233. The Committee welcomes the presentational changes made to the local government budget by the Scottish Government. These changes make the different local government figures much easier to follow.

Noted.

Low Carbon Economy

235. The Committee welcomes the commitment of the Cabinet Secretary to provide further information on the proportion of capital spend that goes to low carbon.

This information was provided to the Finance and Constitution Committee as part of the letter from the Cabinet Secretary for Finance and the Constitution on 19 January 2018.

VALUE FOR MONEY

252. The Committee notes the concerns of the ECCLR Committee that the Cabinet Secretary for Environment, Climate Change and Land Reform “did not think there is a direct relationship between the Budget and the performance indicators.” We welcome therefore that the Scottish Government has commissioned CIPFA to identify options for a methodology to facilitate outcomes budgeting reporting.

The *Public Bodies (Joint Working) (Scotland) Act* 2014 requires local integration of adult health and social care services. There are 31 Health and Social Care Partnership areas in Scotland, which became fully operational on 1 April 2016.

Regulations require that Partnerships include in their Annual Financial Statements and Annual Performance Reports information on their resources analysed by Outcomes. To help with this, CIPFA has been commissioned to work with the Integration Authority Chief Finance Officer (CFO) network to identify options for a methodology to facilitate outcomes budgeting and reporting. The agreement of a methodology is a key step in the process that will ultimately provide further assurance of value for money. The results are expected during 2018-19.

The Scottish Government will consider whether the results of this work could be adapted for use in other policy areas.

253. The Committee asks the Cabinet Secretary to provide further details on how outcomes inform the budget setting process including some specific examples.

The National Performance Framework (NPF) is a clear and unified vision of the Scotland we want to see and how our actions will improve the quality of life of the people of Scotland. The NPF also seeks to measure what the Government is delivering as a consequence of the money which is spent in the budget. Although the NPF underpins all of the work of the Scottish Government, including spending decisions, it looks much wider than economic growth by incorporating broader measures of national and societal well-being.

To support this approach work on this is already under way to identify more clearly what outcomes are being sought with the Budget spend in each area; how we can track that; and what milestones we can use. There should be a clear line of sight between the Purpose and National Outcomes articulated in the NPF, the full range of policies and programmes for which the Scottish Government is responsible, our internal business objectives – down to the level of individual teams and employees – and, through all of that, we should align our activities with those of our delivery partners.

The Scotland Performs website also provides a transparent, up to the minute assessment of how Scotland is performing as a nation across a diverse range of indicators – economic, social and environmental - and it identifies where more work is required through a traffic light system. Information from Scotland Performs, in the shape of Performance Scorecards is considered by Ministers and officials as part of the Budget process and also to assist Committees in the scrutiny of the draft Budget. The Performance Outcomes in the report provide representative examples for each of the National Outcomes, including information on the budget, key achievements and the contribution towards the Outcomes.

The NPF should guide much of our thinking, but our approach is not formulaic, in the sense that what the NPF shows does not automatically lead to particular spending decisions.

254. The Committee recognises that delivering a more outcomes-based budget process will be challenging and require a cultural shift both within the Parliament and Government as well as Scotland’s public bodies and local authorities.

The Committee, therefore, recommends that the Scottish Government works with Audit Scotland and other public bodies to identify how to improve performance reporting, including equalities outcomes, which will support more effective parliamentary and public scrutiny and ultimately result in delivering better value for money.

The Scottish Government welcomes this approach and is supportive of the proposed collaborative working with Audit Scotland and the wider public sector in Scotland. The NPF is a whole-system approach to which all public services are aligned. It is part of a transformative shift in how policy is made and a key enabler of the public service reform and through all of that, how we should align our activities with those of our delivery partners.

By aligning the whole public sector around a common set of goals we can deliver long lasting collaboration and partnership working. Different organisations are already working towards shared goals defined in terms of benefits to the people of Scotland, rather than simply efficient service delivery.

Further, there has been an extensive cross-party and cross – sector engagement as part of the NPF review process which is currently under way. This has included COSLA, the Carnegie UK Trust, Oxfam Scotland and the Children's Parliament. There is also great deal of public sector and civic Scotland engagement on the Scotland Performs platform and the indicators that we work to. As part of this review the refreshed NPF will now reflect Scotland's alignment to the United Nations Sustainable Goals as well as our commitment to the human rights agenda.

There is an opportunity here to consider how the forthcoming launch of the refreshed NPF could build additional momentum around the public services reform agenda which will require a collective effort and harnessing synergies right across the system, including public and private sectors, voluntary sector, business and industry, individuals and communities.

Beyond the value of external scrutiny, through formal performance reviews and audits, the Scottish Government will seek to concentrate its efforts on fostering a continuous improvement approach to drive change. This will enable close collaborative working to improve outcomes and tackle inequalities.

255. The Committee welcomes the Cabinet Secretary's recognition that more needs to be done in terms of gender analysis in the budget setting process and believes that the recommendations of the Budget Process Review Group in relation to equalities provide a useful way forward.

Noted.

BUDGET PROCESSES

A Decisive Shift to Prevention

261. The Committee asks the Scottish Government to provide an update on its view of the progress which has taken place in delivering the decisive shift to prevention across Scotland's public bodies. The Committee also asks what evaluation has been carried out of the £500m change funds which it introduced to support the shift to prevention.

I am satisfied that the narrative in Annex E is true to both the letter and spirit of the most recent Written Agreement with the then Finance Committee in April 2015, as an "overall assessment….of the progress that is being made towards a more preventative approach". In keeping with our assessments in previous years, Annex E includes examples of recent and current actions, and also commitments made to further encourage prevention and broader reform.

Annex E contains similar amounts of detail to previous statements. In fact, this version includes more information than previously about our efforts to encourage and support reform at local level. Each assessment has necessarily provided a brief overview, because it sits within a document that is primarily intended to provide a forward-looking explanation of our spending plans for the following financial year. Of course, the Annex is not the only way in which we account for our activity. For instance, and as the Committee's report recognises, subject committees can scrutinise how we and public bodies build prevention into our work to implement specific policy priorities, improve outcomes and tackle inequalities.

The major difference between Annex E and previous assessments is in how it is structured. Previous statements separated Scottish Government actions in the previous year from our plans for the coming year. We no longer consider this the most helpful way to convey information.

There are two main reasons for this. First, preventive activity is not something which stands separate from other work of Government and public services. It should be an integral part of broader efforts to drive progress on priorities such as giving young people the best start in life and promoting inclusive growth. So it makes sense for our narrative to bring together activities which together support a similar outcome. Secondly, major reforms which support prevention can take some years to bear fruit. We have already undertaken a lot of work to ensure we are on track to fulfil commitments we have set for the future (for instance, to increase the number of health visitors by 500 by the end of 2018, set up our devolved employment service Fair Start Scotland, and establish a Tackling Child Poverty Fund).

The Committee asked what evaluation has been carried out of the previous Change Funds which we introduced to support the shift to prevention. Of these, only the Reducing Reoffending Change Fund continued into 2017 (concluding March 2017). The other Change Funds ended in 2015. The

evaluations took place before the period covered by Annex E (the year since December 2016, when the previous draft Budget was published).

In case the Committee finds it helpful, I attach an Annex (B) which summarises key points from these evaluations. It also describes how we have supported these themes since the Change Funds ended. Within these descriptions are highlighted examples of how this support is promoting issues highlighted in the Committee's letter – around shifts in investment, cultural change, joint working and collaboration. I mention this to illustrate how examples of such activity can be more effectively captured in theme-specific statements of progress than in high-level assessments like Annex E.

Annex B

EVALUATION OF CHANGE FUNDS

The Committee specifically asked about evaluation carried out of the three Change Funds to support the shift to prevention.

Early Years Change Fund

The EYCF was a £274.25 million partnership fund established to support a shift to prioritising prevention and early intervention in early years services from 2012-13 to 2015-16. Each year Community Planning Partnerships (CPPs) completed Returns on their EYCF activity.

An independent analysis on these Returns published in September 2016[1] found that:

- Early years, early intervention and prevention feature as priorities across all areas of the country.
- There is **strong leadership**, **multi-agency working** and a continuing **focus**, both strategically and locally, on the early years agenda.
- Some CPPs shared the lessons they learned in delivering their early years activities relating to sustainability, information sharing and good practice.
- The Early Years Collaborative (EYC) [our improvement programme funded through the EYCF] featured in many of the reports, with CPPs reporting that it helped them to identify areas where real change is taking place and where activities are making a real difference for children and their families.

Some CPPs (12 out of 32) provided examples of **disinvestment.** These (often **multi-agency**) examples set out where resources have been re-directed towards prevention work. For instance:

- NHS Tayside has reduced the amount of funding it allocates to smoking cessation and has redirected this to focus on preventing young people from starting to smoke (the ASSIST Programme).
- Dundee Integrated Children's Services shifted some spend in the mainstream Primary sector to focus more specifically on early years and readiness for school and family support. They established a new universal Family Support Service aligned to early years and primary provision with the specific remit of prevention and early intervention.
- The Public Social Partnership between Dumfries and Galloway Council, Scottish Pre-school Play Association and the Childcare partnership 'Parents and children together' uses a combination of local and SG funding and is specifically designed to enable disinvestment from childcare services into more effective preventative services for families with young children.

[1] http://www.gov.scot/Publications/2016/09/1815/downloads#res505507

Beyond the Change Fund

In November 2016 the Early Years Collaborative and Raising Attainment for All programmes joined together forming the Children and Young People Improvement Collaborative (CYPIC). The CYPIC is training thousands of people **across different sectors** - early years, family support and health practitioners, and teachers - to use Quality Improvement in their daily work so that services are well-designed and based on the best possible evidence. At the heart of the CYPIC is prevention and early effective intervention which allows children and young people to get support for their health, wellbeing and learning wherever they live.

A CYPIC Stakeholder Survey (Oct 2017) found that out of 209 responses, 68 per cent felt that quality improvement had been **integrated into the culture of their CPP**.

In April 2016 the Children, Young People and Families Early Intervention and Adult Learning and Empowering Fund (CYPFEI & ALEC) Fund was established to **support Third sector organisations** to use early intervention and prevention to improve outcomes for children, young people, families and communities. At the end of the fund in March 2019, 118 organisations will have benefitted from this funding totalling £44 million.

Reshaping Care of Older People Change Fund

A report on this Fund was published in June 2015[2]. It describes the progress made over the four years of the change fund, with examples from local partnerships. The report highlights approaches that enhance wellbeing and independence, reduce or delay dependency, and prevent negative outcomes. In particular:

- Preventative and anticipatory care that supports best use of the assets of older people, their families and local communities in improving physical, psychological and emotional health, wellbeing and inclusion
- Proactive and integrated care that enables older people to maintain their independence and to remain safe and supported at home.
- Effective and enabling assessment and care at home, or closer to home, to help older people to regain their capability and confidence after an illness or change in their circumstances.
- Early intervention in hospital / care homes to prevent escalating dependency, reduce delays in returning home and premature admission to long term care

One of the key aspects of the change fund was introducing the **full participation of the third sector and other partners**. In addition to the statutory bodies, individual plans had to be signed off by representatives of the third and independent sectors. This was further developed in the legislation to integrate health and social care, one of the most significant reforms since the establishment of the NHS, where the third

[2] http://www.jitscotland.org.uk/resource/reshaping-care-for-older-people-change-fund-building-on-progress-june-2015/

sector and independent providers have to be represented on the Strategic Planning Groups of each Health and Social Care Partnership.

Beyond the Change Fund

Following the end of the four year change fund, and to support the new integrated Health and Social Care Partnerships to deliver improved outcomes and drive the shift towards prevention, a three year Integrated Care Fund was established. This allocated £100m per year to Partnerships to allow them to test new approaches and pathways of care. This funding will be baselines in local budgets from 2018/19.

As an example of where money is being **disinvested** under these new approaches, the **six Greater Glasgow and Clyde Health and Social Care Partnerships are working together** focussing on people's entire journey through care, rather than by focussing on individual events, services or activities. This is particularly strong in Glasgow City, whose comprehensive Unscheduled Care Plan explicitly sets out how they aim to move rapidly towards a system which will reduce demand in acute settings. They propose reductions of 150 acute beds on a sliding scale by April 2020. Specific activities include:

- strengthened, round the clock community services including community based rehabilitation services across the city and a new model of continuing care; step-up intermediate care, building clinical confidence in the model and building on the success of the step-down model already in place.
- a range of services being developed at the interface, including shared management of and an alert system for patients at risk of unnecessary hospital admissions; a re-direct service from A&E for non-urgent cases that could more appropriately be assessed by GPs; development of alternatives to admission for GPs including direct access to diagnostics, GP access to specialists advice and next day outpatient appointments; more consistent end of life care; and
- acute services focused on assessment and management of acute episodes.

Reducing Reoffending Change Fund

The RRCF proposed the creation of Public Social Partnerships to encourage robust **partnership** working between public and third sector stakeholders, in order to co-design and implement new services. Philanthropic organisation The Robertson Trust also contributed to the RRCF in 2015-17, in an innovative joint investment into third sector services working to deliver social improvements.

The RRCF commissioned a series of evaluations to assess the development and effectiveness of the offender mentoring services established under its remit. A substantial independent evaluation from Ipsos Mori into the effectiveness of offender mentoring services (published February 2016[3]) found that:

- offender mentoring is an effective approach to addressing the needs of offenders, by helping them to learn and implement constructive, non-criminal ways of

[3] http://www.gov.scot/Publications/2016/02/9184

addressing problems in their lives, and to reduce the risk factors associated with offending behaviour.
- mentees who engaged with the services are overwhelmingly positive about their experience, and that some mentees experienced very significant, transformational change in their lives.

Overall, the findings of these independent evaluations recognised the enthusiasm for partnership working and co-design, and supported a view that offender mentoring should remain part of the landscape for community justice in Scotland. This will help inform the SG's future planning for community justice policies, in dialogue with Community Justice Scotland and other stakeholders.

Beyond the Change Fund

After the conclusion of the RRCF in March 2017, SG Community Justice provided grant funding to sustain the two national and two regional offender mentoring services for 2017-18. Final decisions on continued funding for such services will follow the confirmation of the SG Budget for 2018-19.

In parallel to the services being established with the RRCF's support, the Scottish Prison Service have acted independently to establish their own Throughcare Support Service, which deploys SPS officers to provide one-to-one support for individuals, working first within the prison, and then continuing the service in the community. This innovative SPS service is working alongside the third sector mentoring services to deliver practical, flexible support services to more and more individuals leaving prison – and together they represent an increased preventative approach, building up individuals' resilience and reducing the risk of their reoffending.

Evidence suggests that prison short sentences are not effective. Individuals released from a custodial sentence of 12 months or less are reconvicted nearly twice as often as those given a Community Payback Order and the latest figures from May 2017 show that 53% of offenders imprisoned for 12 months or less are re-convicted within a year. Community sentences address the underlying causes of offending whereas short prison sentences provide only limited access to rehabilitative services. Evidence also indicates it is possible that imprisonment can in fact increase long-term offending by weakening social bonds and decreasing job stability. The adverse consequences can also be passed down to future generations, and the SG's Justice Vision and Priorities (July 2017) recognises the potential for parental imprisonment to be an Adverse Childhood Experience shaping future behaviour.

This Government's vision reflects a modern and progressive approach to justice provision. It is focused on **shifting the emphasis** from ineffective short-term imprisonment to greater use of robust community sentences with the aim of **preventing** further offending. In the 2017 Programme for Government, we committed to extending the presumption against short prison sentences to cover sentences of 12 months or less.

We have also increased investment in community justice provision to reflect this shift and more effectively tackle offending behaviour. In addition to the approximately £100 million funding provided to Local Authorities to deliver Criminal Justice Social

Work services, the Scottish Government has provided a further £4 million investment in each of the past two years to support delivery of community sentences. This funding is continued in the 2018-19 draft budget with an additional £2.7 million to further enhance access to community sentences and electronic monitoring and to build capacity in advance of extending the presumption against short sentences.

Changes to the structures of the community justice sector will enable **greater shared local leadership and accountability**. A new model for community justice came into effect from April 2017, under the Community Justice (Scotland) Act 2016, which places the responsibility for local planning and monitoring of community justice services with local statutory community justice partners, which include all 32 local authorities. These statutory partners have a duty to work together, involving the third sector, to devise and implement a Community Joint Outcomes Improvement Plan for their area.

Also in April 2017, a new national body, Community Justice Scotland, came into operation with a remit to champion, promote and support the implementation of the new model and the delivery of community justice outcomes – and to provide constructive support to all community justice partners.