The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

28th Meeting, 2012 (Session 4)

Monday 5 November 2012

The Committee will meet at 11.45 am in Tower Mill, Heart of Hawick.

1. **Draft Budget Scrutiny 2013-14:** Members will report back on the outcomes of the workshop sessions involving local organisations held before the start of the meeting.

   Not before 2.00 pm

2. **Draft Budget Scrutiny 2013-14:** The Committee will take evidence on the Draft Budget 2013-14 from—

   John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Andrew Watson, Head of Finance Policy, and Graham Owenson, Head of Local Government Finance Unit, Scottish Government.

3. **Subordinate legislation:** The Committee will take evidence on the draft Budget (Scotland) Act 2012 Amendment Order 2012 from—

   John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Janet Egdell, Head of Infrastructure & Investment Policy, and Terry Holmes, Head of Finance Co-ordination, Scottish Government.

4. **Subordinate legislation:** John Swinney MSP (Cabinet Secretary for Finance, Employment and Sustainable Growth) to move S4M-04633 - That the Finance Committee recommends that the draft Budget (Scotland) Act 2012 Amendment Order 2012 be approved.

FI/S4/12/28/A

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The papers for this meeting are as follows—

Agenda item 2

Paper by the clerk	FI/S4/12/28/1

Agenda item 3

Paper by the clerk	FI/S4/12/28/2

Finance Committee

28th Meeting, 2012 (Session 4), Monday 5 November 2012

Scrutiny of the draft budget for 2013-14

Introduction
1. The Scottish Government published its draft budget for 2013-14 on 20 September 2012.

2. The Committee will take evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth.

Focus on sustainable economic growth
3. At its meeting on 28 March 2012 the Committee agreed to focus its scrutiny of the draft budget 2013-14 on whether spending decisions align with the Scottish Government's (SG) overarching Purpose of increasing sustainable economic growth.

Preventative Spending
4. The Committee has also agreed to focus throughout this parliamentary session on the progress which is being made in moving towards prioritising preventative spending and, in particular, to monitor the progress of each of the Change Funds introduced by the SG in Spending Review 2011.

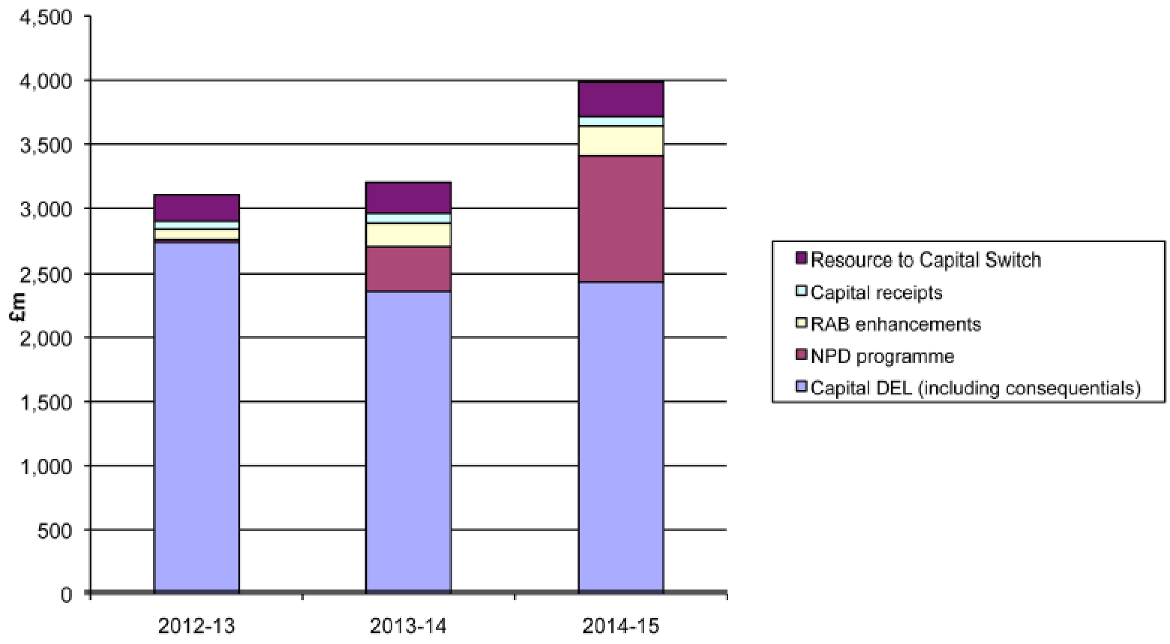
5. The aim of this paper is to provide the committee with a summary of the key themes which have arisen from the evidence which it has received.

Key themes

Capital Investment
6. Draft Budget 2013-14 states that: "Capital investment continues to be a central element of our approach to supporting economic recovery." The SG states that despite a 33% reduction in the capital DEL budget between 2010-11 and 2014-15 it is maintaining capital investment "at over £3 billion annually through a range of innovative approaches" including the Non-Profit Distributing (NPD) pipeline of infrastructure projects and switching funding from resource to capital.

7. Figure 2 on page 6 of Draft Budget 2013-14 provides a graphic of the various elements of the SG's capital investment.

Figure 2: Total capital investment



8. The SG states in Draft Budget 2013-14 that it is "continuing to maximise capital spending as far as possible. Within the financial constraints that we face:

- we will add nearly £250 million to capital budgets through switching resource to capital in 2013-14;
- we have set out that a £180 million construction, skills and green economy investment package will be made available in 2012-13 and 2013-14 to support a range of measures that will support our climate change objectives and create jobs ;
- we will use additional resources, amounting to £141.9 million in 2013-14, to deliver more affordable homes, digital broadband in rural areas, sustainable travel, improvements to the A75 and A77, design work for future improvements to the A82, A90 and A9, and maintenance of our health, cultural and other assets."

9. Further breakdown of the £180 million "construction, skills and green economy investment package" and the £141.9 million "additional resources" is contained in Annexe A.

10. There is strong support within the business community for this approach. For example, the Scottish Chambers of Commerce state that: "to deliver the best long-term benefits for the Scottish economy alongside short-term boost, investment in capital infrastructure is an extremely important route." (OR Col. 1617) In particular, they call for investment in transport and digital technology. The Civil Engineering Contractors Association (CECA) Scotland state that: "The industry's reaction to the budget is that, if it holds the line – in other words, if what is in the budget actually happens – civil engineering in Scotland will stabilise." (OR, 26 September 2012, Col.1624)

11. However, the Scottish Building Federation suggest that "progress is very slow in terms of projects coming out" including projects being supported by the Scottish Futures Trust. (OR, 26 September 2012, Col.1619) They go on to say that: "To suggest that this budget, or any budget at this time, could be a budget for growth in the construction sector is out of touch with reality. Many construction businesses are in survival mode or, at best, recovery mode." (OR, 26 September 2012, Col.1630)

12. The scale of the challenge is emphasised by the SBF in their written submission:

> "In the past three years, almost 600 construction businesses have gone bust, with 196 construction firms bankrupted in the 12 months to June alone, a rise of 17% on the previous 12 months, 54% on two years ago, and 161% on the 12 months to June 2009."

13. The Scottish Property Federation point out that over the last 12 months the Registers of Scotland have recorded just under £1.8 billion in commercial property sales compared to the high of £6.3 billion during 2006-7.

Resource to Capital

14. A key element of the SG's economic strategy is switching over £700 million from resource budgets to capital spending over the period 2012-13 to 2014-15. The SG provided details of this transfer during last year's budget process as follows:

Resource to Capital – estimated switches			
	2012-13 £m	**2013-14 £m**	**2014-15 £m**
Health	95	105	120
Enterprise Agencies	95.9	107	103
Scottish Futures Funds	15.5	30.5	40.7
Total Resource to Capital	206.4	242.5	270

15. The FSU briefing points out that the draft budget 2013-14 identifies where some of these transfers will come from but that the expenditure remains allocated within the resource budget. So, for example, the level 3 figures for the health budget on page 30 of the draft budget document include a budget line on "provision for Transfer to Health Capital" of £95 million in 2012-13 and £105 million in 2013-14. The SG has subsequently advised that this money will be used to support backlog maintenance, statutory compliance and equipment maintenance. It is not clear which budget lines within the health resource budget are being reduced to provide the additional capital expenditure or how much of the planned transfer of £95 million has been switched already in 2012-13.

16. In relation to the enterprise agencies page 45 of the draft budget 2013-14 states that: "we expect the enterprise bodies to supplement their capital programme through switching somewhere between £40million and £75million from resource to capital budgets." The FSU briefing points out that the remaining amounts are not identified and that it is unclear whether the resource to capital transfers planned for 2012-13 have taken place. The FSU conclude that: "Without this detail, it is difficult to assess the change in the capital budget." This point is also raised by the RSE who state in their written submission that while supportive of the switch from resource to capital it is not clear whether and to what extent this has been realised and what impact it has had.

Spending Priorities and Economic Growth

17. The SCDI state in written evidence that: "it is difficult to discern a pattern of spending which aligns with successive Scottish Executive's/Scottish Government's top priority/Purpose of increasing sustainable economic growth." In particular, they question the decision to prioritise the protection of the health budget at the expense of other spending areas which directly and indirectly increase sustainable economic growth. On a similar basis the Centre for Public Policy for Regions briefing on the draft budget point out that:

> "Spending on the, already very large, NHS resource budget has again been favoured at the expense of others, securing an extra £263 million. Whilst this meets an election pledge of passing on the UK Health Barnett consequentials, it is less clear how it helps secure faster economic growth."

18. In his report on the draft budget the Budget Adviser comments:

> "Given the relative changes in other budgets, it is difficult to avoid the conclusion that maintaining current spending on health is currently the main priority of the Scottish Government. Nevertheless, even with continued large budget increases, it is clear that the health budget is under strain"

19. The RSE state that: "It would be useful to see a cost-benefit analysis of the Scottish Government's spending decisions against its stated core objective of sustainable economic growth." SCVO argue that: "Stimulating economic growth for its own sake is a model that has failed, and we need to take a long-term, holistic approach to the economy" which encompasses a range a range of social, environmental and economic outcomes."

"Picking Winners"

20. Professor Kay states in written evidence to the Committee that: "the appropriate industrial strategy for Scotland is that it should be based on the principle that small countries succeed in the world economy by exporting narrow specialisations a global scale." He suggests that this means "picking winners" by identifying and promoting sectors in which Scotland has a genuine competitive advantage and that "the emphasis should be on sectors that are winners, not on ones that we would like to be winners."

21. In oral evidence to the Committee, Professor Kay followed up on this point by suggesting that the Committee should challenge the SG on what it is doing to develop skills and capabilities in those industries where Scotland has such a genuine competitive advantage. (OR, 24 October 2012, Col.1702)

22. Specifically in relation to the whisky industry he stated that the contribution that whisky makes to the Scottish economy is significantly overestimated and is quite disappointing. He argues that: "The growth of the Scottish whisky industry is not that impressive, given the extent of global growth in spirits consumption. There are a lot of questions that we should be asking about the whisky industry and its contribution to Scotland." More generally in relation to the food and drink industry Professor Kay states that he is not sure that Scotland's potential as having a premium brand in food and drink is being realised.

23. Scottish Enterprise stated previously in evidence to the Committee that there is a need "to focus deeply on a relatively small number of companies" and that "at any one time, about 2,000 to 3,000 of those businesses have the absolute ability to be international businesses or to grow." They stated that the most resource goes into the energy, tourism, financial services, life sciences, food and drink sectors and the creative industries.

24. However, Professor MacRae from Lloyds Banking Group suggests that "Highlands and Islands Enterprise and Scottish Enterprise should be targeting support at high-growth firms much more than they are at the moment."

National Performance Framework

25. A recurring issue for this Committee and previous Finance Committee's has been the lack of any linkage between spending and outcomes in either the draft budget document or the NPF. This is an issue which has again been raised in evidence during the current budget process. For example, the RSE point out in their written submission that the National Performance Framework "does not link spending to outputs; nor does the Framework act as a mechanism through which choices between priority areas can readily and objectively be made."

26. The RSE argue that given the increasing pressure on the public finances and the consequent need to prioritise some funding streams and projects over others that the current process is not fit for purpose. They continue to call for a Treasury function to be created within the SG "to be tasked with undertaking a full cost-benefit analysis and opportunity cost of assessment of all policy options. Such analysis is the only means through which priorities can be rationally set and justified."

27. The Committee raised the issue of a challenge function in its report on last year's draft budget and the SG responded that it: "adopts a strategic approach to policy development and decision making throughout its activities." These include its programme for government and economic strategy.

28. The Committee also sought clarification from the SG on whether the NPF continues to be fully integrated into the Scottish Government's spending plans over the spending review period and how this works in practice. The SG stated in its response that the NPF is "fully integrated with our spending plans" and a "consistent reference to the National Performance Framework is important as some outcomes will take a longer period to achieve." However, the FSU briefing on this year's draft budget states that:

> 'In Spending Review 2011, each portfolio chapter included a section on "Our National Outcomes", which detailed how the portfolio contributed to the specific National Outcomes in the National Performance Framework. Draft Budget 2013-14 does not include this section in the portfolio chapters and the National Outcomes are only mentioned briefly in the narrative accompanying four portfolios.'

29. The SCDI state in their written submission that it: "has not seen much evidence that the National Performance Framework is integrated with the spending plans of the Scottish public sector including the Scottish Government." They argue that it should "be clearer how the Scottish Government is prioritising in its spending decisions between the 50 indicators currently in Scotland Performs." The Scottish Chambers of Commerce suggest that government policies including the draft budget should be measured against the Government's Purpose. In contrast, SCVO state that the NPF "should be reconfigured to encompass wellbeing, social inequality and environmental impact" and "progress against the NPF needs to be more open and transparent, being regularly reported on and scrutinised, particularly in Parliament."

Scotland Performs – current performance information

30. The FSU Briefing, Scotland Performs – September 2012 update, summarises the data in Scotland Performs. In terms of the Purpose Targets[1], at 11 September 2012—

- 4 were showing "performance improving" arrows;
- 4 were showing "performance maintaining" arrows; and
- 3 were showing "performance worsening" arrows.

31. The FSU briefing states that this is a significant change since June 2012. At 3 June—

- 5 were showing "performance improving" arrows; and
- 6 were showing "performance maintaining" arrows.

32. Annexe B to this paper reproduces information from the FSU Briefing on the performance assessment of individual targets and indicators.

[1] The Government states that the "Purpose is supported by a set of ambitious targets which focus on the drivers of sustainable economic growth and ensure that growth is shared and sustainable. These targets form part of our outcome based National Performance Framework and set the direction and ambition of our Government Economic Strategy."

Non-Domestic Rates Income

33. The FSU briefing states that NDRI is forecast to rise by 17.7% in cash terms and 12.1% in real terms between 2012-13 and 2014-15. The Budget Adviser states that: “With a yield of more than £2.2 billion in 2011-12, NDRI has grown steadily as a source of income. Given that NDRI is effectively a tax on non-exempt businesses, it is not clear that expecting it to grow further is consistent with the objective of maximising economic growth.”

34. The Scottish Chambers of Commerce point out that: “there will be an increase of about £500 million in the business rates take between 2011 and 2015” and that their members “are acutely aware that they are essentially paying a larger share towards the overall spend in the Scottish budget.” (OR, 26 September 2012, Col.1634) CBI Scotland welcomes in written evidence the Government’s commitment to maintain the poundage rate parity with England.

35. The Committee’s report on draft budget 2012-13 included reference to concerns from the EET Committee that the projected income rise from NDR may not be realised depending on the overall economic situation. The SG responded that: “the link between buoyancy in NDRI and economic growth is not as sensitive in the short run to changes in the macro-economy than other taxes.” The SG also confirmed that if any “adjustments are necessary this will be brought to the attention of the Parliament and its Committees for scrutiny through the Budget process.”

Public Sector Procurement

36. The Scottish Building Federation stated that: “There is an issue with the procurement process. In a recent survey of all our members, a significant majority of companies with an annual turnover of under £2 million said that they had basically opted out of public sector procurement.” (OR, 26 September 2012, Col.1621) It therefore welcomed the recently announced consultation on the potential introduction of a Procurement Reform Bill, but also highlighted how urgently problems with the current system needed to be addressed.

37. CECA Scotland state that: “So many things are tied up with tidying up procurement and, indeed, various local benefits can be gained through using local providers instead of going for the cheapest price…The procurement reform bill should cover those matters and we cannot wait for it.” (OR, 26 September 2012, Col.1631)

38. SCVO state in their written submission that public procurement “could be reformed to help stimulate and benefit local economies, third sector organisations and a range of social/environmental outcomes.” Scottish Chamber of Commerce state in their written submission that: “Crucially important to business in terms of public sector support are Scotland’s public procurement processes” and that while some progress has been made “we remain some distance away from maximizing the benefits to Scotland from our procurement processes.”

Change Funds

39. In its report on last year's draft budget the Committee agreed with the Christie Commission that it is essential that the change funds are monitored and indicated that it would monitor the progress of each of the funds. In response to last year's draft budget report the SG stated that it has agreed previously with the Committee to: "provide, in future draft budgets, assessment of the progress being made towards a more preventative approach." The SG also stated that: "work is underway to develop monitoring and evaluation frameworks for the Change Fund for older people's services and early Years and early Intervention Change Fund." The SG states that Draft Budget 2013-14 "provides an update on progress" and reinforces the commitment to preventative spending. It also states that: "Monitoring processes are being developed and put in place for each of the three change funds, including an assessment of their impact on improving outcomes and reducing the demand for acute services over time."

40. The RSE state in their written evidence to the Committee that: "it is difficult to identify the level of real funds dedicated to this purpose or to analyse progress over the relatively short time period that preventative spending has been on the agenda." In a similar vein SCVO suggest in written evidence that: "Given the lack of detail in the Change Plans, it is difficult to fully assess the reality of change on the ground." They argue that: "Some fundamental questions need to be asked in relation to the change funds and prevention. Change what? By how much? What does success look like? We need to develop concrete plans to ensure the sustainability of public services."

41. Draft Budget 2013-14 states that: "The three change funds illustrate the progress towards prevention, driving change in mainstream service delivery." The Cabinet Secretary confirmed in his statement on the draft budget 2013-14 that: "In partnership with local government, we have made more than £500 million available to three change funds to support early years, adult social care and to tackle reoffending." The Cabinet Secretary also announced that: "I can confirm that Single Outcome Agreements will incorporate a long term prevention plan that makes a commitment to increase the resource invested and reinvested over time in preventative interventions."

42. However, East Ayrshire Council state in their submission that while the Change Funds are welcome: "much of the funding came from refocusing existing activities to ensure that preventative action is prioritised." North Ayrshire Council state in its submission that £920,000 of new funding has been committed to a preventative spending approach in the current financial year but that "this will be difficult to maintain as our funding gap widens."

43. North Ayrshire Council also state that: "We welcomed the announcement of the Children's Change Fund but so far it has not been as successful as the Older Peoples one in terms of shifting the balance of funding and responses. Allocation of new money at partnership level…would help drive forward this agenda."

44. The Wave Trust stated in its evidence that:

> "We are currently cautiously optimistic about the prospects for leadership and its influence on local areas. We are not convinced that the Government appreciates the level of spending which would make a decisive change at local level. As a point of comparison WAVE is currently involved in discussions with the Big Lottery in England which could result in a small number of local areas in England (typical size 50,000 population each) receiving £40m each to implement a committed policy of primary prevention."

Impact of welfare reform

45. A number of submissions commented on continuing inequalities, with particular reference to the impact of welfare reform. Citizens Advice Scotland states:

> "One of CAS' main points in our response to the Scottish Spending Review 2011 and Draft Budget 2012-13[2] was that the impact of UK welfare reform changes had not been taken into consideration. We made the point that the Spending Review did not mention the changes which will lead to £2.5 billion being taken out of the Scottish economy over much of the period of the spending review. We stated that, at a time when public services and local authority funding was also being reduced, this was short-sighted. This remains our major area of concern."

46. Citizens Advice Scotland continues:

> "The Fraser of Allander Institute has stated that that benefit cuts will result in £2 billion being taken out of the Scottish economy by 2014-15 and they expect this to "contribute to the weak growth of household spending"[3]. An estimated £1 billion of this £2 billion will be from disabled people and their families[4].
>
> These changes and the loss in personal income will have a direct impact on local economies and communities. As welfare payments, and therefore spending power, is reduced, the money being spent within local economies across Scotland will decrease also; with what could be very damaging consequences for some local communities. CAS believes this must be accounted for in the next Scottish budget."

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

47. Following the publication of the Christie Commission report the SG established a Cabinet Sub-committee on Public Services Reform to drive forward and co-ordinate progress on a comprehensive programme of improvement and reform. In response to the Committee's request for a six-monthly update on progress from the sub-committee the SG confirmed that it

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[2] Citizens Advice Scotland *Scottish Government Spending Review & Draft Budget: Finance Committee* October 2011 Available online: http://www.cas.org.uk/publications/scottish-government-spending-review-draft-budget-finance-committee [Accessed 13 August 2012]

[3] The Fraser of Allander Institute *Economic commentary Vol 34 No 2 November 2010*. Available online: http://tinyurl.com/6htwtmg [Accessed 13 August 2012]

[4] Inclusion Scotland. *Welfare Reform Briefing September 2011*

"would be happy to update the Committee on progress on public service reform activity." Draft Budget 2013-14 includes a brief section on progress on renewing public services in which the SG states that the Christie Commission informed the Spending review 2011 in marking "a step change in renewing the public services."

48. In its report on Draft Budget 2012-13 the Committee sought clarification on whether the SG had plans to take forward specific Christie Commission recommendations including the introduction of statutory powers and duties across all public services bodies which would include a presumption in favour of preventative action and tackling inequalities. The SG responded that it had "not yet reached a firm view" on this but that it would be discussing this issue with local government and other interested

McClelland Review of ICT Infrastructure parties.

49. The SG states in Draft Budget 2013-14 that it will implement its *Scotland's Digital Future – Delivery of Public Services* strategy, which sets out its response to the McClelland Review.

50. The Committee considered the McClelland Review during last year's budget process and invited the SG to provide a progress report including details of savings within future draft budget documents. The SG stated in its response that the "Public Sector ICT National Board will provide progress reports to the Cabinet Sub Committee for Public Service Reform and we would be happy to provide an annual update on progress to the Committee." The National Board is expected to "agree a common approach across sectors to measurement and benefits realisation" and to report to the Cabinet Sub Committee on progress.

51. The SG stated in its response to the McClelland Review that Spending Review 2011 assumes savings of between £230 million - £300 million a year will be made in the ICT budgets of the public sector.

Jim Johnston
Clerk to the Finance Committee

ANNEXE A

This annexe provides a further breakdown of the £180 million "construction, skills and green economy investment package" for 2012-13 and 2013-14 and the £141.9 million "additional resources" highlighted on page 7 of Draft Budget 2013-14.

Members will wish to note that the Draft Budget document includes the allocation of the Barnett consequentials for 2013-14 but does not include the Barnett consequentials for 2012-13. So, for example, in table 3 below the various allocations for 2013-14 have been included in the Draft Budget document but the allocations for 2012-13 have not been included. The SG explains this approach on page 22 of the Draft Budget.

Table 1: £180m investment package

The Government has confirmed that the £180 million "construction, skills and green economy investment package" for 2012-13 and 2013-14 is broken down as follows.

Category	Spending item	2012-13 total £m	2013-14 total £m
Construction	Historic Scotland projects		1.00
Construction	Housing loans	7.50	7.50
Construction	Other new housing	22.50	5.00
Construction	Sleeper		5.00
Construction	M8 utilities		2.50
Green	Energy efficiency for public bodies	5.80	4.50
Green	Peatland Restoration	0.20	0.50
Green	Consumer cashback voucher	5.36	14.69
Green	National Retrofit Programme Pathfinders	3.00	
Green	Cycling	3.50	2.50
Green	Hybrid buses		2.50
Green	Fossil Fuel levy spending		47.00
Green	Hydro Nation		4.00
Skills	Energy Skills Academy	2.00	1.25
Skills	Employer recruitment initiative		15.00
Skills	FE student support		11.00
Skills	FE places		6.00
	TOTAL	**49.86**	**129.94**
Construction		30.00	21.00
Green		17.86	75.69
Skills		2.00	33.25
Sub-total Construction / Green / Skills		**49.86**	**129.94**

Source: Scottish Government

In terms of funding the £180m package, the Government has confirmed that it is made up as follows—

Table 2: £180m investment package – sources of funding

Source of funding	**£m**
From redeployment of current sources or additional resources available centrally via budget exchange or other	101.80
Barnett consequentials (loans)	15.00
Fossil Fuel Levy	47.00
Transfer from DECC	16.00
Total	179.80

Source: Scottish Government

Table 3: Additional capital expenditure

The table below, produced by the Scottish Government, sets out the allocation of the £141.9 million "additional [capital] resources". This funding is part of the Barnett consequentials from the UK Government Autumn Budget Statement in November 2011 which were announced by the SG on 8 February 2012. The total of capital consequentials from 2012-13 to 2014-15 is £382.6 million.

	2012-13 £m	**2013-14 £m**	**2014-15 £m**	**TOTAL £m**
Total Capital Consequentials	**68.4**	**141.9**	**172.3**	**382.6**
TOTAL ALLOCATIONS	**68.4**	**141.9**	**172.3**	**382.6**
Local Government	11.7	34.7	47.6	**94.0**
Rural: Digital High Speed Broadband	1.5	14.0	12.8	**28.3**
Housing: Affordable homes	12.0	16.0	17.0	**45.0**
Housing: Loans / Equity	26.0	16.0		**42.0**
Transport: Sustainable and Active Travel	4.0	5.0	4.0	**13.0**
Transport : Roads projects	1.2	28.2	42.9	**72.3**
Health: Capital works on the NHS estate	10.0	25.0	25.0	**60.0**
Justice: Modernisation of the prison estate for female offenders			20.0	**20.0**
Culture: Projects and maintenance	1.0	2.0	2.0	**5.0**
Asset Management Fund	1.0	1.0	1.0	**3.0**
TOTAL	**68.4**	**141.9**	**172.3**	**382.6**

Source: Scottish Government

ANNEXE B

Information in this annexe is taken from the FSU Briefing, Scotland Performs – September 2012 update, which summarises the data in Scotland Performs. Table 2 in the FSU Briefing sets out the overall performance of the Purpose Targets, and is reproduced below.

Purpose target	**Performance Assessment as at**		
	3 February 2012	**1 June 2012**	**11 September 2012**
To raise the GDP growth rate to the UK level by 2011	↑	↑	↑
To match the GDP growth rate of the small independent EU countries by 2017	↔	↑	↑
To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017	↔	↔	↑
To narrow the gap in participation between Scotland's best and worst performing regions by 2017	↔	↔	↑
To rank in the top quartile for productivity against our key trading partners in the OECD by 2017	↔	↔	↔
To match average European (EU15) population growth over the period from 2007 to 2017	↑	↔	↔
Supported by increased healthy life expectancy in Scotland over the period from 2007 to 2017	↔	↔	↔
To maintain our position on labour market participation as the top performing country in the UK	↑	↔	↔
To close the gap with the top five OECD economies by 2017	↑	↑	↓
To reduce emissions over the period to 2011	↑	↑	↓
To reduce emissions by 80 percent by 2050	↑	↑	↓

Finance Committee

28h Meeting, 2012 (Session 4), Monday 5 November 2011

The Budget (Scotland) Act 2012 Amendment Order 2012

Purpose

1. The purpose of this paper is to invite the Committee to consider the Budget (Scotland) Act 2012 Amendment Order 2012 on the autumn budget revision. A copy of this draft affirmative Scottish Statutory Instrument (SSI) is attached (Annex A) along with the accompanying 2012-13 Autumn Budget Revision (ABR) document (Annex B) which was also laid before the Parliament on 18 October 2012.

2. Briefings on the Order and accompanying document have been prepared by the Financial Scrutiny Unit (Annex C) and the Scottish Government (Annex D).

3. The paper provides background information to the budget revisions and the procedure relating to the consideration of a draft SSI.

Background

Autumn Budget Revision

4. The purpose of the Order is set out in its Explanatory Note. In summary, it amends the Budget (Scotland) Act 2012 which authorised the Scottish Government's spending plans for the current financial year. The accompanying ABR document provides supporting information to the Order.

Draft affirmative SSI procedure

5. Approval of the ABR is sought through a draft affirmative SSI laid before the Parliament. Affirmative SSIs are considered following the procedure set down in Rule 10.6 of Standing Orders which allows a 40-day period for committees to consider and report. The Subordinate Legislation Committee considered the draft SSI on 30 October 2012. It had no issues to report on the instrument.

6. During the 40-day period, to bring the provisions into force, a member of the Scottish Government must lodge a motion that the committee recommend approval of the instrument to the Parliament. A copy of this motion is attached (Annex E). Rule 10.6 provides for a debate lasting no more than 90 minutes. The minister is entitled to speak in the debate and the Cabinet Secretary for Finance, Employment and Sustainable Growth will give oral evidence to the Committee. Scottish Government officials will attend in support of the Cabinet Secretary and can also answer questions.

7. Once this is completed, there is a 'debate' on the motion. Only the Cabinet Secretary can respond to questions at this point, not his officials. The Convener will ask members if they have any further comments on the Order (most issues tend to be covered in the earlier discussion). The Cabinet Secretary will move the motion and the Committee will be invited to indicate whether it agrees to recommend approval of the Order to the Parliament.

8. If the Committee recommends approval of the Order, the Parliamentary Bureau will, by motion, propose that it is approved by the Parliament. If the Committee does not recommend approval, then the Scottish Government must decide how it wishes to proceed. It can, for example, withdraw the Order and re-lay a new one taking account of any concerns expressed.

Conclusion

9. The Committee is invited to consider the Budget (Scotland) Act 2012 Amendment Order 2012.

Fergus D. Cochrane
Senior Assistant Clerk to the Committee

Annex A

The Budget (Scotland) Act 2012 Amendment Order 2012

The above document can be accessed via the following link—
www.legislation.gov.uk/sdsi/2012/9780111018118/contents

Annex B

Scotland's budget documents: The 2012-13 Autumn Budget Revision

The above document can be accessed via the following link—
www.scotland.gov.uk/Publications/2012/10/9634/1

Annex C

Briefing by Financial Scrutiny Unit

Introduction
The 2012-13 Autumn Budget Revision (ABR) amends the Budget (Scotland) Act 2012 which authorises the Government's spending plans for the financial year 2012-13. Details of the proposed changes are set out in the 2012-13 Autumn Budget Revision to the Budget (Scotland) Act for the year ending 31 March 2013 published on 18 October 2012. The Scottish Government has also produced a brief guide to the 2012-13 ABR.

The proposed changes detailed in the ABR result in an increase in the approved budget of £168.7m (from £33,570.3m to £33,739.0m). The ABR seeks parliamentary approval for these changes.

The main changes to the Government's spending plans arise from:

- An increase in the departmental expenditure limit (DEL) as a result of funding changes (+£221.9m)
- Technical adjustments, primarily in relation to NHS and teachers pensions (-£53.2m)
- Transfers between Scottish Government portfolios, which have no net overall effect on the budget and often reflect changes in responsibilities

The main changes (primarily those above £10m) under each of these headings are analysed below, along with suggestions where further clarification would assist in scrutinising the ABR information.

Funding changes

The additional funding available to the Scottish Government and allocated as part of the ABR arises from a number of sources:

- Barnett consequentials for 2012-13 resulting from UK Government spending decisions announced at the 2011 Autumn Statement (£112.8m) and 2012 March Budget (£9.3m)
- Drawdown of the fossil fuel levy (£66.1m in 2012-13)
- Underspend from 2011-12 carried forward to 2012-13, using the Budget Exchange Mechanism (£79m)
- Capital acceleration, bringing forward planned capital expenditure from future years (£36.9m)
- Release of Forth Replacement Crossing contingency funding (£20m)

Table 1 summarises these additional funding sources for 2012-13, which total £324.1m.

Table 1: Additional funding sources for 2012-13

	2012-13 £m
Barnett consequentials	
Autumn 2011	112.8
March 2012	9.3
Fossil fuel levy	66.1
Underspend	79.0
Capital acceleration	36.9
FRC contingency	20.0
Total	**324.1**

Source: Scottish Government

The ABR allocates £258.2m of this total (£221.9m net[1]). A breakdown of this total, including details of the timing of the various announcements is given in Table 2. The allocation of £258.2m compared with the available funds of £324.1m implies that - at the current time - the Scottish Government still has £65.9m remaining to be allocated. The Spring Budget Revision (in January) provides a further opportunity for the Scottish Government to propose amendments to the 2012-13 budget. The Scottish Government also has the option, subject to limits agreed with HM Treasury, of carrying forward funds into 2013-14 (see below for further discussion of the Budget Exchange Mechanism).

The Committee may wish to seek clarification on how the Scottish Government intends to allocate these additional sums, or whether it would plan to carry money forward into 2013-14.

[1] Net figure excludes £16.2m repayment of funds accelerated to 2011-12 and £20m FRC contingency

Table 2: Summary of ABR allocations

2012-13	
Stage 3 of 2012-13 Budget Bill (8 February 2012)	**£m**
Capital	
Local Government	11.7
Rural: Digital High Speed Broadband	1.5
Housing: Affordable homes	12.0
Housing: Loans / Equity	26.0
Transport: Sustainable and Active Travel	4.0
Transport : Roads projects	1.2
Health: Capital works on the NHS estate	10.0
Culture: Projects and maintenance	1.0
Asset Management Fund	1.0
Resource	
Education: Student Support and college places	19.5
Youth Employment	6.0
Total Resource and Capital	**93.9**
Capital stimulus package (27 June 2012)	
Low Carbon Investment/Renewables	21.6
Housing and Regeneration	39.4
Infrastructure and Investment	28.5
Enterprise	7.5
Tourism - Year of Natural Scotland	4.5
Tourism - Cultural Assets	3.9
Total Capital	**105.4**
Draft 2013-14 Budget Statement (20 September 2012)	
Housing	30.0
Cycling	3.5
National Retrofit progamme	3.0
Welfare - social fund	2.0
VisitScotland	1.5
Total Resource and Capital	**40.0**
Other miscellaneous in ABR	
Early retirement commitments	2.1
JESSICA funding	6.0
COPFS - investigation of cold cases	0.7
Audit Scotland	0.5
Copland's Dock, Stromness	2.5
Energy training opportunities	2.0
Jubilee Gift - veterans initiatives	0.1
Scottish Natural Heritage	0.1
Culture and External Affairs - V&A project / Port Edgar	4.9
Total	**18.9**
TOTAL ANNOUNCEMENTS SINCE 2012-13 DRAFT BUDGET	**258.2**

Source: Scottish Government, various announcements

Budget Exchange Mechanism
The Devolved Administrations Budget Exchange Mechanism (BEM) allows the Scottish Government to carry forward any underspends from one financial year to the next up to a limit which is calculated as a percentage of the Departmental Expenditure Limit (DEL) budget: 0.6% of resource DEL, 1.5% of capital DEL and 0.6% of non-cash resource DEL. In respect of 2011-12, the limits for carrying forward to 2012-13 were £150 million fiscal resource DEL, £40m capital DEL and £4m non-cash resource DEL.

Making use of this facility, the Scottish Government agreed with HM Treasury that it would carry forward its underspend of £79m cash DEL from 2011-12 to 2012-13 as well as its planned £100m carry forward from 2011-12 that was already built into the 2012-13 budget plans.

The 2012-13 budget included a planned carry forward from 2011-12. It is not clear whether the Scottish Government has any planned carry forward from 2012-13 built into the 2013-14 draft budget.

Resource to capital
In the 2011 Spending Review, the Scottish Government announced its intention to switch over £700 million from resource budgets to capital spending over the period 2012-13 to 2014-15, in order to mitigate the effects of the reducing capital budget. During the 2012-13 budget scrutiny phase, the Scottish Government provided further information showing that £206.4m of this total would be transferred in 2012-13.

Resource to Capital – estimated switches			
	2012-13 £m	**2013-14 £m**	**2014-15 £m**
Health	95.0	105.0	120.0
Enterprise Agencies	95.9	107.0	103.0
Scottish Futures Funds	15.5	30.5	40.7
Total Resource to Capital	**206.4**	**242.5**	**270.0**

Source: Scottish Government

Any resource to capital transfers within the enterprise agency budgets would not appear in the budget revisions as the entire enterprise agency budget appears within the operating budget total. However, the resource to capital transfers for health and the Scottish Futures Fund should appear in the budget revisions at some point during the year. The ABR document shows no such transfers either for health or the Scottish Futures Fund. This would imply that any transfers will appear in the Spring Budget Revisions in January, although until the Spring Budget Revisions are published the details of the transfers will not be known.

The Committee may wish to seek clarification of how the Scottish Government will inform the Parliament of any transfers within the enterprise agency budgets.

Technical adjustments
Net technical adjustments total -£53.2m which mainly reflects an estimated NHS and Teachers pensions reduction (AME) of £52.2m. NHS and Teachers pensions spending is fully funded by HM Treasury. This adjustment is due to "a reduced actuarial assessment by HM Treasury driven by restraint measures taken by the UK Government." It is unclear what "restraint measures" this relates to.

Transfers between/within Scottish Government portfolios
Transfers between and within Scottish Government portfolios do not have an overall effect on the budget. They reflect either changes in responsibility for delivery between portfolios or other in-year budgetary adjustments.

Some of the main transfers are outlined below by portfolio.

Health and Wellbeing
Transfer of £56.1m from Health to Education and Lifelong Learning in respect of nursing and midwifery education.

Transfer of £6.1m from Health to Education and Lifelong Leaning in respect of clinical academics and senior GPs.

With regard to the larger transfer of £56.1m in respect of nursing and midwifery education, members will note that similar transfers have taken place in ABRs for previous years. If this is going to be a recurrent transfer, it is not clear why this transfer has not been incorporated into the Education and Lifelong Learning draft budget from the outset. By not being incorporated into the Draft Budget document, it has the effect of making the Health Budget look higher than it is in reality and the Education and Lifelong Learning budget lower than it is in reality.

Justice
Transfer of £30.2m from Justice to Health in respect of drug treatment and prevention.

A similar transfer took place in last year's ABR. As with the point above relating to the health budget transfer, it is not clear why this has not been reflected in the Justice and Health baselines within the Draft Budget document.

Other proposed changes
The remainder of this paper summarises some of the particular budget changes identified within the various portfolios.

Finance and Sustainable Growth
There is additional resource of £31.5m allocated to the funding of enterprise and energy projects (p14). It is not clear what particular projects this additional resource allocation relates to, and whether the spending will be capital or resource spending.

Health and Wellbeing

Aside from the portfolio transfers mentioned above, there is provision within Health Capital of £10m as part of the Barnett consequentials and £15m in respect of “shovel ready projects” (p18).

The Guide to the Autumn Budget Revision states that this is being spent on “additional capital for NHS estate” and “acceleration of capital maintenance”. There is no further detail on what specific projects this involves.

Education and Lifelong Learning

£11.4m has been identified within the Education and Lifelong Learning portfolio for “additional funding for student support” (p26).

The Committee may wish to seek more detail on this proposed change and whether this represents an ongoing commitment to increased student support or a one-off addition to the student support budget.

There is a transfer within the portfolio of £12m from the Scottish Further and Higher Education Funding Council (SFC) to “other Lifelong Learning” for the Opportunities for All programme. Opportunities for All also receives £6m from the allocations announced by the Cabinet Secretary at Stage 3 of the Budget Bill in February 2012. There is also a £9m transfer to Local Government to fund Opportunities for All programmes locally (p27).

There is no further information on these transfers and any implications for the SFC budget. Also, it is unclear whether the £9m transfer to local government is from the £18m revisions referred to above, or whether it is in addition to this £18m funding.

Infrastructure, Investment and Cities

There is a £20m transfer of funding from the Forth Replacement Crossing budget contingency to housing (p 57). However, this is classified as Capital on p57, but appears as an Operating budget on p64. The reason for the move from Capital to Operating is unclear. The implications for contingency risks in the Forth Replacement Crossing are unclear.

Additional funding of £83m (£78 Operating and £5m Capital) for Housing is shown on p64 of the document. It is unclear why this is largely classed as Operating spend or how this money is being spent.

An additional £6.5m is identified under Parliamentary Business and Government Strategy for ‘Restructuring of portfolios’ (p67). It is unclear what this additional spending relates to or why this is included within the Infrastructure, Investment and Cities portfolio heading.

Local Government

Local Government receives an additional £11.7m for capital projects (p74). The Committee may wish to seek further information on what type of projects this relates to and why it is classified as Operating expenditure.

Scottish Teachers' and NHS Pension Schemes

There is a proposed reduction of £102.1m in the NHS Pensions budget (p84) and a proposed increase of £49.9m in the Teachers' Pensions budget (p85), accounting for the net -£52.2m technical adjustment mentioned in the Introduction to the ABR. It is not clear why the NHS pensions budget is being reduced while the teachers' pensions budget is increasing.

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Financial Scrutiny Unit
30 October 2012

Annex D

Scottish Government guide to the 2012-13 Autumn Budget Revision (ABR)

Background

1. The Autumn Budget Revision is part of the annual Budget process. The Budget process commences with the publication of the Draft Budget and the subsequent consultation process. This is followed by the annual Budget Bill and the parliamentary approval of the Scottish Government's spending plans.

2. Once the Budget Act has been approved by the Scottish Parliament, there are usually two opportunities to amend the budget as the year progresses. The Autumn Budget Revision in October and a Spring Budget Revision in January.

Autumn Budget Revision

3. The Autumn Budget Revision is routine Parliamentary business that proposes amendments to better align the Government's budget with its planned spending profile.

4. The aim of the Brief Guide to the Autumn Budget Revision is to explain the main changes to the Budget since the approval of the Budget Act, and give some further background on why the changes have been made.

5. The changes proposed in the Autumn Budget Revision result in an increase in the approved budget of £168.7m from £33,570.3m to £33,739.0m.

6. The changes to the Budget are broken down in to three main areas:

    - Funding Changes which have arisen since the Budget Act (net increase of £221.9m)
    - Technical Changes (-£53.2m)
    - Transfers between Portfolios (£0.0m)

7. The main changes included under each heading are summarised below.

<u>Funding Changes</u>

8. Funding changes in this ABR represent additional budget that provides additional spending power within Portfolios and programmes.

9. There are three occasions which have lead to amendments which are shown in this ABR:

   I. Stage 3 of the 2012-13 Budget Bill on 8 February 2012;
   II. 27 June 2012, as part of the Provisional Outturn Statement; and
   III. 20 September 2012 as part of the Draft Budget 2013-14 statement.

10. The Statement by the Cabinet Secretary for Finance, Employment and Sustainable Growth at Stage 3 of the 2012-13 Budget Bill on Wednesday 8 February 2012, triggered budget revisions for additional capital for Housing (£38m), Health (£10m), Transport (£5.2m), Local Government (£11.7m), Digital Broadband (£1.5m), Culture (£1m) and asset management (£1m) and additional resource funding for student support (£19.5m) and youth unemployment (£6m).

11. Further to these changes, the Cabinet Secretary for Finance, Employment and Sustainable Growth announced on 27 June 2012, additional capital funding allocations for shovel ready projects in 2012-13 for low carbon investment/renewables (£21.6m), housing and regeneration (£39.4m), infrastructure and investment (£28.5m), enterprise (£7.5m) and cultural assets/tourism (£8.4m).

12. On 20 September 2012, as part of the Draft Budget 2013-14 statement, the Cabinet Secretary for Finance, Employment and Sustainable Growth announced further investment in construction, skills and the green economy. Additional funding of £40m was allocated in 2012-13 for housing (£30m), cycling – community links and road safety (£3.5m), National Retrofit programme – making homes more energy efficient (£3m), welfare – social fund (£2m) and Visit Scotland - profile marketing (£1.5m), funded in part by the release of £20m Forth Replacement Crossing contingency funding no longer required.

13. Funding sources include Barnett consequentials, as announced at Stage 3 of the Budget Bill on Wednesday 8 February 2012, funding carried forward from 2011-12 via the Budget exchange mechanism, funds repaid that had been accelerated in the 2011-12 budget, accelerated capital and capital headroom through the Shovel-Ready projects announcement on 27 June 2012 and the release of the 2012-13 budget contingency on the Forth Replacement Crossing project. The net impact of the funding changes on the Scottish Budget is an increase of £221.9m and the allocation to portfolios is set out below:

Table 1: Allocation to portfolios	£m
Finance, Employment and Sustainable Growth	33.0
Health and Wellbeing	25.0
Education and Lifelong Learning	23.7
Justice	0.1
Rural Affairs and the Environment	4.9
Culture and External Affairs	8.9
Infrastructure, Investment and Cities	109.2
Administration	2.1
Crown Office and Procurator Fiscal Service	0.7
Local Government	11.7
National Records of Scotland	0.9
Forestry Commission	1.2
Audit Scotland	0.5
Total	**221.9**

14. The ABR records total funding changes of £221.9m. The detailed amounts are set out at Table 2.

Technical Adjustments

15. In line with past years, the ABR recognises a number of technical changes which are essentially neutral and at no detriment to the spending power of the Scottish Government.

16. The estimated NHS and Teachers pensions reduction (AME) of £52.2.m is mainly due to a reduction in the actuarial assessment by HM Treasury of the costs of service accrued due to pay restraint measures taken by the UK Government.

17. The Housing and Hostels Support Grants (AME) have been reduced by £1m and have been reclassified as DEL budgets by HM Treasury.

18. The ABR records total net technical changes of -£53.2m.

Internal Transfers

19. Internal transfers reflect changes in responsibility between portfolios, changes in payment mechanisms and virement. Accordingly, these changes net to zero across the budget.

Table 2 – Summary of Changes from Approved Budget Act

2012-13 Budget Approved at the Budget Act		**33,570.3**
Funding Changes		
Finance, Employment and Sustainable Growth		
Enterprise and Energy projects	31.5	
Visit Scotland marketing	1.5	
Copland's Dock, Stromness	2.5	
Scottish Enterprise reprofiled funding	-2.5	
		33.0
Health and Wellbeing		
Additional capital for NHS estate	10.0	
Acceleration of capital maintenance	15.0	
		25.0
Education and Lifelong Learning		
Student support	11.4	
West Highland college	1.4	
Skills Development Scotland	8.1	
Opportunities for All	6.0	
Energy training opportunities	2.0	
Scottish Funding Council reprofiled funding	-5.2	
		23.7
Justice		
Jubilee Gift – various Veterans initiatives	0.1	
		0.1
Rural Affairs and the Environment		
Royal Botanic Garden project	1.5	
Visitor facilities at National Parks	1.8	
Next Generation Digital Fund	1.5	
Scottish Natural Heritage	0.1	
		4.9
Culture and External Affairs		
Additional capital funding for cultural projects	7.6	
Additional capital funding for Historic Scotland projects	1.3	
		8.9
Infrastructure, Investment and Cities		
Sustainable and active travel	4.0	
Cycling projects – community links and road safety	3.5	

Green Bus Fund	2.8		
Capital funding for roads projects	3.7		
Kennacraig, Kintyre phase 2 causeway	3.5		
Housing and Regeneration	83.0		
JESSICA funding (Joint European Support for Sustainable Investment in City Areas)	6.0		
Regeneration projects in Rutherglen, Riverside, Inverclyde and Bridgeton	4.7		
National retrofit programme for improved energy efficiency	3.0		
Welfare - social fund	2.0		
Asset Management Fund	1.0		
Empty homes purchase - Govanhill	0.5		
Reprofiled capital funding	-8.5		
		109.2	
Administration			
Early retirement commitments	2.1		
		2.1	
Crown Office and Procurator Fiscal Service			
Investigation of cold cases	0.7		
		0.7	
Local Government			
Capital projects	11.7		
		11.7	
Direct Funded bodies			
National Records of Scotland, Forestry Commission and Audit Scotland	2.6		
		2.6	
			221.9
Technical Changes			
Reclassification of Housing and Hostels Support Grants to DEL	8.0		
Reduction in NHS and Teachers' pension costs (AME)	-52.2		
Reduction in Housing and Hostels Support Grants (AME)	-9.0		
		-53.2	
			-53.2
Internal Transfers within Scottish Block			
Finance, Employment and Sustainable Growth	-9.0		
Health and Wellbeing	-32.0		
Education and Lifelong Learning	61.4		
Parliamentary Business and Government	-6.5		

Strategy			
Justice	-29.0		
Rural Affairs and the Environment	-4.3		
Culture and External Affairs	-2.4		
Infrastructure, Investment and Cities	2.1		
Administration	4.3		
Local Government	11.5		
Direct Funded bodies	3.9		
		0.0	
			0.0
Proposed Budget following Autumn Revisions			**33,739.0**

Table 3: Revisions by type

	DEL	AME	Total
	£m	£m	£m
Funding Changes	221.9		221.9
Technical Changes	8.0	-61.2	-53.2
Scottish Block Transfers			
Total Changes	**229.9**	**-61.2**	**168.7**

Details of Significant Inter-Portfolio Transfers

Finance, Employment and Sustainable Growth

- Transfers to Education and Lifelong Learning for the SEEKIT programme, the Knowledge Transfer Partnership programme and the Energy Skills Academy (-£6.5m)
- Transfer to Local Government for Copland's Dock, Stromness (-£2.5m).

Health and Wellbeing

- Transfers to Education and Lifelong Learning for nursing and midwifery education and to fund salary costs of clinical academics (-£62.2m)
- Transfer from Justice for drug treatment and prevention (£30.2m)

Education and Lifelong Learning

- Transfers from Finance, Employment and Sustainable Growth and Health and Wellbeing – see above (£68.7m)
- Transfer to Local Government for "Opportunities for All" (-£9.0m)
- Transfer from Culture and External Affairs for "Workforce Plus" (£2.4m)

Justice

- Transfer to Health and Wellbeing for drug treatment and prevention (-£30.2m)

Rural Affairs and the Environment

- Transfer to Administration for the provision of facilities and estates services to Marine Scotland (-£4.5m)

Culture and External Affairs
- Transfer to Education and Lifelong Learning for “Workforce Plus” (-£2.4m)

Infrastructure, Investment and Cities
- As a result of a small restructuring of portfolios, the former Parliamentary Business and Government Strategy portfolio has been subsumed within the Infrastructure, Investment and Cities portfolio (£6.5m)
- Reclassification of Scottish Housing Regulator as a new Non-Ministerial Department (-£4.0m)

Administration
- Transfer from Rural Affairs and the Environment for the provision of facilities and estates services to Marine Scotland (-£4.5m)

Local Government
- Transfers from Finance, Employment and Sustainable Growth and Education and Lifelong Learning – see above (£11.5m)

Finance Co-ordination
October 2012

Annex E

Budget (Scotland) Act 2012 Amendment Order 2012 [draft]
S4M-4633 John Swinney: That the Finance Committee recommends that the Budget (Scotland) Act 2012 Amendment Order 2012 [draft] be approved.