

**Cabinet Secretary for Finance, Employment
and Sustainable Growth**

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Dear Convenor

I welcomed the opportunity to debate on 22 December the Finance Committee's report on the 2012-13 Draft Budget. Following on from the comments I offered in that debate, I now enclose at Annex A the Scottish Government's written response.

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

JS

JOHN SWINNEY

ANNEX A

SCOTTISH GOVERNMENT RESPONSE TO FINANCE COMMITTEE REPORT ON SPENDING REVIEW 2011 AND DRAFT BUDGET 2012-13

Strategic context for the spending review

National Performance Framework

13. The Committee welcomes this refresh of the national indicators, which it understands will be published in December and invites the Scottish Government to consider the written evidence which it received in relation to the NPF and, in particular, paragraph's 75-78 of the summary of evidence including the concerns about the lack of Early Years indicators.

Early Years

In refreshing the National Performance Framework we have reflected on the importance of a child's earliest years and have introduced two new Early Years indicators. These are 'Increase the proportion of babies with a healthy birth weight' and 'reduce children's deprivation'. These will sit alongside the existing indicators 'increase the number of pre-school centres receiving positive inspection reports', 'improve children's services', 'improve children's dental health' and 'increase the proportion of healthy weight children'. There are also a number of other indicators that directly effect a child's early years (such as 'reduce the proportion of adults who smoke' and 'improve access to suitable housing for those in housing need').

Smoking

The National Performance Framework continues to include an indicator monitoring the proportion of adults who smoke. While this indicator does not relate specifically to deprived areas, progress is unlikely to be seen to the national picture without a concerted effort in deprived areas. Further work will be taken forward on monitoring equality dimensions across the National Performance Framework.

Violence against women

Any form of violence is unacceptable, including violence against women. However, inclusion of a single indicator, drawn from robust and clear data to reflect progress in the National Performance Framework is not yet possible. Women who experience violence do not necessarily make themselves known and it is difficult to gather accurate data on their experiences from surveys. In terms of reporting data, police recorded incidents of domestic abuse have tended to rise over the last 10 years, but it is unclear whether this is a result of an actual increase in levels of domestic abuse or a reflection of better detection of incidents by the police and of increased confidence in reporting by women. Therefore the range of currently available data, reporting at a

national level, is not robust and clear enough for the NPF. The Scottish Government will continue to work with partners to make the best use of available data, to improve the collection of data and to ensure that work around National Outcomes takes account of domestic abuse and violence against women.

Older People

Lord Sutherland's Independent Review of Free Personal and Nursing Care in Scotland (28 April 2008), recommended that the Scottish Government establish clear national priorities and outcomes for older people in the NPF. There was support for this from Age Scotland, who, in their report *Breaking Down Barriers* (autumn 2010), called on the next Scottish Government to immediately implement Lord Sutherland's recommendation.

A new National Outcome which has been added to the National Performance Framework called 'our people are able to maintain their independence as they get older and are able to access appropriate support when they need it'. This reflects Lord Sutherland's recommendation on the demographic significance of the ageing population and the Government's commitment to independent living, enablement and health and social care integration.

19. The Committee would, therefore, welcome clarification from the Scottish Government on whether—

- **there has been a review of the Scottish Government's progress over the period of the previous spending review against the National Performance Framework and how this informed the spending review 2011;**

The National Performance Framework infrastructure, including the Scotland Performs website, allows a continuous assessment of progress towards the National Outcomes and Government's Purpose. The Scottish Government continually looks for improvement and investigates any areas where we are not making the progress we would wish to see. This continual assessment was an essential element that fed into the spending review process.

- **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 National Performance Framework represents a common vision for the whole Scottish public sector and, as such, is fully integrated with our spending plans. With the entire public sector aligned behind a single framework, spending decisions made by Scottish Government and our delivery partners are all aimed to deliver the common set of outcomes. This encourages a partnership approach and joint working across sectors to deliver successful outcomes. A consistent reference to the National Performance Framework is important as some outcomes will take a longer period to achieve.

- **the national indicators represent Scottish Government priorities and have been funded accordingly;**

The National Indicator Set is a representative set of the areas we are currently prioritising in order to achieve the National Outcomes and Purpose. They do not provide comprehensive measurement of every activity that Scottish Government undertakes or wishes to see improvement in. They cover a broad range of economic, social and environmental issues which, if improved, will indicate Scotland is making progress towards becoming the more successful country we all want to see. As the National Performance Framework and Spending Review are closely linked, funding is aligned towards delivery of the National Outcomes and Purpose.

- **the 15 national outcomes and 45 national indicators have been reviewed to reflect the shift towards preventative spending; and**
- **specific indicators will be introduced to measure progress arising from the introduction of the shift towards preventative spending.**

The refresh of the National Indicator Set has taken into account the move towards preventative spending. Over half of the 50 National Indicators are directly related to preventative spending, and it could be argued that all of the indicators will show how our move towards preventative spending is working. However, by its very nature, it may take many years before the results of preventative spending is realised and reflected in the National Indicators. New National Indicators that have been included that directly relate to preventative spending are 'increase the proportion of babies with a healthy birth weight', 'increase physical activity', 'reduce children's deprivation' and 'reduce pre-mature mortality'.

The 16 National Outcomes reflect the vision we have for Scotland and our move towards more preventative spending will take us closer to achieving them.

Accelerating economic recovery

Capital Expenditure

31. While the Committee supports the priority given to capital spending within the spending review 2011, given the above, it would welcome clarification from the Scottish Government on—

- **details of the priority which has been given to maintenance expenditure within the spending review 2011; and**

Maintenance spend will be held broadly flat in cash terms, ensuring that essential maintenance can continue. We are also working with the Scottish Futures Trust to take forward improvements in the way we manage assets across the public sector to reduce maintenance requirements over the next

few years, through greater collaborative use of assets and disposal of surplus assets.

- **whether planned capital projects which are not already committed have been reviewed within the context of the Scottish Government's strategic priorities.**

On 6 December 2011, the Cabinet Secretary for Infrastructure and Capital Investment published the Scottish Government's Infrastructure and Investment Plan. The Plan sets out why infrastructure investment is important, how it is undertaken and financed, and what strategic, large scale investments are planned by sector through to 2030. The proposed projects and programmes within the Plan have been assessed against four prioritisation criteria derived from the Scottish Government's Purpose. The overall summary of this high level initial assessment is provided at Figure 3 of the Plan.

Prioritisation occurs at two levels: each Cabinet Secretary considers top priorities in their portfolio in delivering the Purpose and their core objectives, and collectively the Cabinet considers the balance between portfolios that will maximise sustainable economic growth. The Scottish Government's Infrastructure Investment Board (IIB), a small, senior official level Board, assists Cabinet in taking an overview across different portfolios, by reviewing management and governance arrangements for the whole capital programme and scrutinising investment plans at portfolio and project level. Outline business cases for individual projects set out in more detail the outcomes each will achieve.

32. The Committee also invites the Scottish Government to provide an update on the actions taken in respect of the asset management issue since the publication of the spending review 2011 and what its approach going forward will be.

The Scottish Futures Trust's (SFT) recent reports on improving asset management across the public sector identified significant potential savings. We are proactively taking these forward.

Public Sector Pay

34. The Committee notes the possibility of "modest increases" in public sector pay and seeks clarification from the Scottish Government on whether this has been accounted for in setting out its spending plans for the years covered by the spending review.

Modelling of the implications of various pay scenarios formed part of the Government's consideration of future spending plans. This does not extend to determining the application of any policy centrally and at this stage what individual public bodies should spend on their salary costs beyond 2012-13 – clearly that would be inappropriate, given the role that individual employers have in reaching agreement on pay at a local level and reflecting local

circumstances and given the relationships in some sectors with UK pay arrangements. It would also pre-empt future pay policy.

The focus in the spending review on public service reform, efficiency, preventative spending and support for economic recovery is designed to support the future affordability of our public services, including pay costs.

The Cabinet Secretary for Finance, Employment and Sustainable Growth announced the 2012-13 Public Sector Pay Policy on 21 September. In view of the tough decisions the government has had to take in light of the cuts imposed by the UK Government, we have considered it necessary to continue with the current pay freeze for a second year. Within this, we are continuing to work to make sure that pay is fair and non-discriminatory and as such the policy provides flexibility for public bodies to provide particular support for their lower paid staff.

37. The Committee would welcome the views of the Scottish Government on the findings of the Hutton report prior to the Committee's meeting on 25 January 2012.

The Scottish Government notes that the recommendations in the Hutton Review of Fair Pay in the Public Sector are aimed at a much larger number and wider range of public bodies and UK Government Departments than is the case in Scotland – around 480 but reducing to around 230 in due course. In Scotland there is one 'department' (the Scottish Government) and 37 Chief Executives covered by Pay Policy for Senior Appointments. The Scottish Government considers that in Scotland, the Pay Policy for Senior Appointments – as updated for 2012-13 and published in September this year – already reflects the terms or spirit of many of the recommendations in the report. However, the Government is considering the general principles highlighted by the review and Will Hutton's specific recommendations, as we look ahead to the development of future pay policy in Scotland.

Non-Domestic Rates

44. The Committee supports the LGR Committee's request for regular reports on NDRI collection performance.

NDR income projections are subject to regular monitoring as part of the normal Budget cycle process as more up to date data becomes available to check that the forecasts remain on track. If any adjustments are necessary this will be brought to the attention of the Parliament and its Committees for scrutiny through the Budget process.

In addition, the Scottish Government lays before Parliament an annual Non Domestic Rating White Paper Account setting out full details of all the sums collected by local authorities and the distributable amounts paid back to local authorities.

45. The Committee also invites the Cabinet Secretary to publish the economic growth assumptions which underpin the buoyancy estimates.

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, as premises are typically fixed costs of production and businesses maintain these even when output (production) is scaled back within the premises. Other factors related to property costs and planning regulations are equally important in the short run when determining buoyancy figures.

The Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to EET Committee on 14 November 2011, to confirm the buoyancy estimates of growth in the underlying tax base include NDR income forecasts are 1.95% in 2012-13, 2.15% in 2013-14 and 2.35% in 2014-15.

Buoyancy estimates are based on past buoyancy trends and an assessment of current and anticipated future economic conditions. Outturn figures show that even at the height of the recession in 2008-09 there was still growth in the underlying tax base of 0.91% and this had risen to 1.73% in 2010-11.

This supports the Scottish Government's position that it has taken a prudent and cautious approach to future forecasts which will be subject to regular monitoring as part of the Budget process to check that the forecasts remain on track.

Universal Services

51. The Committee welcomes the Scottish Government's commitment to maintaining universal services over the period of the spending review. The Committee has agreed to hold an initial series of round table evidence sessions on fiscal sustainability, including a session on universal services.

The Government notes this point.

Challenge Function

54. The Committee recognises the need for the rigorous internal scrutiny suggested by the RSE and invites the Scottish Government to outline how such a challenge function operated during the spending review 2011, how it will operate in future and whether there are plans to develop this function if more financial powers are devolved to the Scottish Parliament.

The Scottish Government adopts a strategic approach to policy development and decision making throughout its activities, in consultation with stakeholders and guided by its Purpose of sustainable economic growth, the framework of national outcomes and the direction set by the Programme For Government and updated Government Economic Strategy. This approach is reflected in Scottish Government policy and in the spending decisions taken as a result.

In that context, it is the responsibility of the Cabinet Secretary for Finance, Employment and Sustainable Growth, supported by Director General Finance, Finance Directorate and senior officials across the Scottish Government, to consider and advise Cabinet collectively on budget options. This approach ensures that decisions are taken collectively and with due regard to the connections between areas of government and relative priorities. This involves an effective challenge function.

The Government will ensure that the organisational implications of further devolution are given thorough consideration as the debate on these matters progresses.

Renewing public services

Commission on the Future Delivery of Public Services

62. The Committee notes the response from the Scottish Government to the Christie Commission, but would welcome clarification on what plans the Scottish Government has to take forward the following recommendations made by the Commission—

- **introduce a new set of statutory powers and duties, common to all public service bodies, focused on improving outcomes and which include a presumption in favour of preventative action and tackling inequalities (paras. 5.22 to 5.26 and para. 6.17);**

The Scottish Government has not yet reached a firm view on whether there is value to be gained from introducing additional statutory powers and duties on public service bodies to support a focus on improving outcomes, preventative action and tackling inequalities over and above those already in place and set out in our priorities for renewing public services. We will be discussing this issue further with local government and other interested parties, but the Government is clear that all public bodies should act in accordance with these attributes.

- **forge a new concordat with local government to develop joined-up services, backed by funding arrangements requiring integrated provision (para. 5.17); and**

The 2007 Concordat included the creation of Single Outcome Agreements, setting out for each local authority area local outcomes to be achieved in pursuance of local priorities while contributing to national outcomes. SOAs were originally between the Scottish Government and local authorities, but are now entered into by community planning partnerships. We and CPPs now have several years' experience of operating the SOA framework and the Scottish Government believes that the time is right for a detailed review of CPPs and SOAs, in line with the findings of the Christie Commission and as part of the wider agenda of public services reform, to consider how the CPP/SOA framework needs to evolve to support the aims of the public service

reform agenda and in particular increased integration of services. It also believes that this review should be conducted jointly with local government. The Scottish Government has therefore agreed with COSLA to establish such a joint review, work on which has now begun. The review will draw on the evidence from the three rounds of SOA reports to date and consider how the framework needs to evolve to support the aims of the reform agenda, with a particular focus on prevention and integration. We would be happy to provide the Committee with further information on the review if that would be helpful, and on the review's conclusions once it has been completed.

The local government finance settlement, which was announced to Parliament on 8 December 2011, is firmly anchored in the ongoing relationship between the Scottish Government and local government and our commitment to working together on our joint priorities. The Government has reaffirmed its commitment to our partnership and is clear about the benefits which have flowed from it in the form of more effective delivery of the outcomes that matter to the people of Scotland.

As part of this funding settlement, local authorities, together with their community planning partners, have a key role to play in driving a greater focus on partnership working, collaboration and local delivery and are encouraged to increase their focus on prevention in making decisions about the use of resources. In particular, they are encouraged to contribute funding to change funds to support the greater alignment of budgets on a preventative basis. The level of funding deployed on this basis and the activities that it will support should be determined locally in line with a framework established at a national level by the existing joint Ministerial Group on Health and Social Care and the new Early Years Taskforce.

The Cabinet Secretary for Health, Wellbeing and Cities Strategy also recently announced plans for the integration of adult health and social care, which will include a requirement for NHS Boards and local authority partners to integrate budgets for older people as a minimum.

- **review specific public services in terms of the difference they make to people's lives, in line with the Commission's reform criteria (para. 7.48).**

We are firmly committed to a culture of continuous improvement across public services to make sure they achieve the outcomes that matter most to people in Scotland. Our response to the Christie Commission's report – *Renewing Public Services* – sets a clear challenge to all public services to reshape, to integrate and to deliver improved outcomes for people.

63. The Committee would also welcome further detail on how the Scottish Government plans to take swift action to “accelerate progress in building prevention into the design and delivery of all our public services” as set out in its response.

The passage below responds to paragraphs 63, 83, 84, 110, 111, 120, 138 and 148.

The Scottish Government is committed to driving a decisive shift towards prevention, in terms of both public spending and the nature of service delivery. This is a partnership agenda, primarily across the public and third sectors, with the three change funds at the forefront. We are ensuring clear guidance and governance arrangements for each change fund, and are engaging with stakeholders to lead debate and development of practice within the fields concerned. The Government welcomes the Committee's commitment to monitor progress.

The Change Fund for older people's services is overseen by the Ministerial Strategic Group for Health and Community Care, and guidance was issued to relevant parties in November 2011. The Early Years and Early Intervention change fund is overseen by the Early Years Taskforce, and guidance is currently being finalised. To inform our approach to the Reducing Reoffending Change Fund, we are convening a stakeholder group to review current funding arrangements and develop change options.

These steps are delivering suitable governance arrangements for each of the change funds for focusing on outcomes, setting criteria, enabling and ensuring change, facilitating pooling of resources, measuring progress and sharing learning. Collectively, they demonstrate the Government's commitment to lead the public debate and focus on priority areas.

Over £500 million is being committed to the change funds over the three-year spending review period. Our pledge to extend the funds over this period is important, as it provides a secure financial environment in which delivery partners and stakeholders can plan, thus enabling change to be embraced and embedded.

Preventative approaches are being developed within and across a wide range of public sector activities in Scotland, and different service areas are at different stages in this transition. We are seeking to encourage those advanced areas to continue to develop experience and evidence, to further innovate and to draw lessons for development of preventative approaches more broadly. As well as committing specific funding to support prevention, the Government also recognises there may be actions that do not directly involve spend which help to deliver a more preventative approach. Accordingly, boundaries should not be drawn too tightly around what constitutes preventative spending or a preventative approach, and our working definition is broad – *spending that focuses on preventing problems and eases future demand on services by intervening early, thereby delivering better outcomes and value for money.*

Our broader work is focused on ensuring that our ambitions for a decisive shift to preventative spend are realised across all areas of service delivery. Priorities in taking this work forward across Government and the wider public sector include:

- defining characteristics of preventative spend;

- monitoring, reporting and sharing of evidence and good practice;
- ensuring the three Change Funds lever broader change; and
- developing a shared leadership agenda across the public sector

The Scottish Government will continue to engage with a range of key stakeholders across the three change funds and more widely, in order to develop a shared approach to the leadership agenda. This will help address the issues raised by the Finance Committee around prioritisation of resources, collaborative working and financial challenges.

The balance between innovation and development of responses to local needs and consolidating wider or national approaches on the basis of evidence of what works continues to be considered and developed with our delivery partners. It is clear that leadership cannot come solely from the Scottish Government, and that there is no single blueprint for how a decisive shift will be achieved in different geographical and sectoral areas.

The Scottish Government has also agreed previously with the Committee to include in future draft budgets an overall assessment of progress being made towards a more preventative approach.

64. The Committee also refers to further recommendations from the Christie Commission in the section of the report below on preventative spending. The Committee would welcome a six-monthly update from the Cabinet sub-committee on the progress made in implementing the Christie Commission's recommendations.

We published our response to the Christie Commission's report – *Renewing Scotland's Public Services* – in September 2011. We would be happy to update the Committee on progress on public service reform activity, in light of the Christie Commission's recommendations, on a regular basis.

McClelland Review of ICT Infrastructure

68. The Committee seeks clarification from the Scottish Government on whether the £4.7 million budget each year will deliver these projected savings and how.

The £4.7M will deliver on our public sector ICT policy priorities, supporting and enabling public service reform.

The Scottish Government have put in place a programme office and a cross public sector governance structure to deliver on the implementation requirements set out in the McClelland Review. The programme has 10 work streams one of which is Measurement and Benefits Realisation.

The Public Sector ICT National Board will agree a common approach across sectors to measurement and benefits realisation and report progress to the Cabinet Sub Committee on Public Service Reform.

The board will also monitor and managing the resourcing of the work streams to deliver on the savings and we expect every public sector organisation to demonstrate how they will contribute to the potential savings identified in the review.

69. The Committee further invites—

• a progress report, as part of the annual budget document over the period of the spending review—

- **on how its strategy is bringing savings in ICT across the public sector;**
- **details of the savings which have been achieved in each sector;**
- **an explanation where the projected savings in each sector have not been achieved; and**

• confirmation that the Scottish Government will ensure that the infrastructure needed to deliver these savings will be in place, including—

- **how this will be done;**
- **what it will cost; and**
- **an assessment of what impact it would have on securing these savings if the infrastructure is not provided.**

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 ICT Strategy is being developed with cross sector input and support. The PS ICT National Board will meet on 24th January 2012 to agree a draft which will then be disseminated to public sector organisations and ICT Industry representatives to ensure that all parties are clear about expectations and can contribute to the delivery of the priority work streams.

The measurement and benefits realisation work stream will agree the baseline approach and the reporting requirements which will ensure we can measure the success of the programme. The benefits will not just be cash releasing savings as there will be benefits achieved through integration of services and workforce collaboration.

The Strategy will set out the priority areas for the Public Sector ICT Infrastructure and this will include the work stream to determine the technical

and design requirements and operating framework to support the delivery of the infrastructure requirements.

There is commitment from across the public sector and the ICT Industry to contribute to delivering an ICT infrastructure that enables public service reform.

Efficiency savings

75. Given the response of the Scottish Government to the previous Committee's report on the draft budget 2011-12 that it expects public bodies to provide the necessary supporting evidence to provide assurance on reported efficiencies, the Committee seeks assurances from the Scottish Government that the necessary supporting evidence will still be required from public bodies to provide assurance on reported efficiencies and that this will be published.

Presenting the Draft Budget in November 2010, the Cabinet Secretary for Finance, Employment and Sustainable Growth indicated that Ministers expect every public body to deliver efficiency savings of at least 3% in 2011-12 and to report publicly on the actions taken and the results achieved. Section 32 of the Public Services Reform (Scotland) Act 2010 places a statutory duty on those public bodies listed at Schedule 8 to publish an annual efficiency statement.

The template (referred to at paragraph 71 of the report) intended to help public bodies publish their efficiencies in a consistent format, was issued on 1 April 2011. This includes a section on the evidence, such as performance measures and/or quality indicators, that demonstrates efficiencies were achieved without any detriment to services.

76. The Committee further seeks clarification from the Scottish Government on whether the efficiency savings made by a public body will be retained by that public body.

The Scottish Government has been very clear on this issue. The target of 3% efficiency savings is being applied across the public sector as our expectation of what bodies should generate in efficiencies to protect services from the full impact of the £1.3bn cut in the Scottish Government's total budget. These efficiencies will help public bodies to offset cost pressures and live within their budget allocations. The 3% target is part of the strategy we are adopting across the public sector to ensure that all bodies are able to operate within their budget allocations, whether these have been increased, maintained or reduced in the 2011-12 budget.

A decisive shift to preventative spending

83. The Committee agrees with the Christie Commission and indicates that it plans to monitor the progress of each of these funds.

Please see response under paragraph 63.

84. To assist with this process, the Committee invites the Scottish Government to provide further details on the £500 million funding, including—

- **who will manage each of the funds;**
- **how monies will be allocated;**
- **what safeguards will be in place to ensure that funds for preventative**
- **spending will not be used to top up or substitute for existing expenditure;**
- **what outcomes have been set; and**
- **how progress will be measured.**

Please see response under paragraph 63.

Reshaping Care for Older People Change Fund

88. The Committee would, therefore, welcome clarification from the Government on—

- **whether there has been a review of progress in implementing the Change Fund and whether this will be made publicly available;**

A mid-year review of progress made by all 32 partnerships across Scotland with Change Fund Plans for 2011-12 was published on 5 October 2011 by the Joint Improvement Team. The review is publicly available on the JIT's website at <http://www.jitscotland.org.uk/action-areas/reshaping-care-for-older-people/change-fund-plans/>. Its main findings are that, overall, good progress is being made by Partnerships with regard to their Change Plans.

A framework for assessing partnership progress on the Change Fund for older people's services over the next three financial years is being implemented, including:

- local evaluations;
- thematic capture of findings from local evaluation;
- in-depth case studies from a range of partnerships to further explore implementation and aid learning;
- mid-year and end-year overview reports.

Progress will be regularly reported to the Ministerial Strategic Group for Health and Community Care.

- **whether there is a need for Ministers to intervene to ensure that the money provided through the Change Fund is being spent appropriately; and**

The Ministerial Strategic Group for Health and Community Care (MSG) has already made clear in its guidance that the proportion of funding allocated by Partnerships to preventative and anticipatory care and to proactive care and support at home should increase. Progress made by Partnerships will be considered by the Ministerial Strategic Group over the whole course of the Change Fund lifecycle.

- **the level of supplementary funding which it expects local authorities to contribute to the Change Fund.**

Subject to local agreement, and consistent with their Change Plan objectives, it is open to all Partnerships to augment their Change Fund allocations by using supplementary funding from other sources, including local authorities.

Early Years and Early Intervention Change Fund

93. The Committee would, therefore, welcome clarification from the Scottish Government on—

- **how much of £12.28 million will be available to the Early Years Taskforce as part of the Change Fund;**
- **the amount of new money which the Scottish Government is allocating to the Early Years which is additional to the £45 million and £6.8 million allocated in the draft budget 2011-12;**
- **whether the Early Years Change Fund is distinct from the Early Years Fund introduced in the draft budget 2011-12;**
- **whether the commitment remains to protect third sector funding to improve outcomes for children and young people, including children with disabilities, as indicated in the draft budget 2011-12;**
- **the level of local government funding which the Scottish Government anticipates will be contributed to the Early Years Change Fund and whether this will be additional to the funding of existing Early Years programmes; and**
- **which budget heading the investment of £20m/£45m/£50m comes under within the Health portfolio and whether this will be additional to the funding of existing Early Years programmes.**

Resource in total is estimated to be a minimum of £270m over the spending review period. The Scottish Government will provide £50m of resource over the parliamentary term through the Sure Start component of the Scottish Futures Fund, including £10.5m in 2012-13. The Health, Wellbeing and Cities Strategy portfolio contribution will come from the Health Improvement and Health Inequalities, the General Dental Services and the Healthy Start budget lines. We expect NHS Boards and local authorities to work together locally, considering change options in the context of the totality of their available resource, to finalise and prioritise resources in line with agreed preventative priority areas.

Development and governance of the change fund and corresponding activity is being delivered by the Early Years Taskforce. The first meeting of the Taskforce took place on 8 November and the second on 14 December. The Taskforce has committed to developing guidance for local partners on moving to a preventative spend approach and to agreeing shared objectives and outcomes.

The separate £6.8m Early Years Early Action Fund, established to provide support to the third sector to improve outcomes for children and young people, will continue.

Reducing Reoffending Change Fund

96. In addition to the request from the Justice Committee, the Committee would welcome clarification from the Scottish Government on the total amount of funding which is being allocated to the Reducing Reoffending Change Fund.

The Scottish Government has allocated £7.5 million for the Reducing Reoffending Change Fund over the current spending review period. £4.5 million has been allocated from the Community Justice budget and £3 million will come from the Third Sector budget, profiled as follows:

	2012-13 Draft Budget (£m)	2013-14 plans (£m)	2014-15 plans (£m)
Third Sector budget	1.0	1.0	1.0
Community Justice Services budget	1.0	1.5	2.0

National Leadership

110. The Committee recognises that many preventative spending initiatives will rightly be developed at a local level in response to local needs, but considers that organisations across the public sector are seeking greater direction and guidance from the Scottish Government

on how the preventative spending agenda should be taken forward to ensure that the “decisive shift” to which it is committed becomes a reality.

Please see response under paragraph 63.

111. Therefore the Committee would welcome clarification on whether and, if so, how the Scottish Governments plans to—

- ensure that the preventative spending agenda is embedded across the
- delivery of public services;
- respond to calls for greater direction on the national priorities for preventative spending and the agenda that should be taken forward at a local level;
- ensure that national policies which promote preventative spending are
- developed across directorates to facilitate collaborative working at a local level;
- help facilitate the pooling of resources by local organisations in the implementation of national policies promoting preventative spending;
- create incentives, in addition to the change funds, for organisations which embrace the preventative spending; and
- collate and disseminate examples of local good practice in preventative spending.

Please see response under paragraph 63.

Prioritisation of Resources

120. The Committee considers that, given the restrictions of the current financial climate, difficult decisions regarding disinvestment will need to be made to ensure that preventative spending becomes integral to service delivery in the long term. The Committee considers that the Scottish Government has a key role to play in leading the debate on the areas on which preventative spending at both a national and local level should initially focus and where disinvestment should occur. It therefore seeks clarification from the Scottish Government on how it plans to—

- lead the public debate on the need for investment and disinvestment to

- **ensure that preventative spending becomes integral to public service delivery in the long term;**
- **draw up a list of early intervention objectives and criteria by which decisions on investment and disinvestment should be made; and**
- **set out the priority areas that should initially form the focus of preventative spending at both a national and local level.**

Please see response under paragraph 63.

121. The Committee supports, in particular, the roll out of the family-nurse partnership across Scotland.

The Government notes this support.

Collaborative working

129. The Committee seeks clarification from the Scottish Government on whether it plans to implement the following Christie recommendations—

- **implement new inter-agency training to reduce silo mentalities, drive forward service integration and build a common service ethos; (Foreword) and**

To support services to work seamlessly across boundaries in support of better outcomes, the Scottish Government and partners across public services are promoting collaborative development opportunities. This is happening in a number of ways:

- Bodies which support workforce development across the major service areas – health, education and social care – are increasingly working to support inter agency development activity. For example, NHS Education for Scotland and the Scottish Social Services Council have established a joint framework for co-operation and collaboration to ensure that their work supports integrated working across sectors.
- The Scottish Leaders Forum (SLF) brings together the chief executives of public service in regular dialogue. The SLF event in June focused on workforce development and this continues as a workstream involving the Scottish Government and Chief Executives across public services. The SLF event in November focused on public service improvement and took collaboration as a major theme.
- The SLF Workforce Group will continue to sponsor events and activities on workforce development and to promote employee engagement across the public service workforce in 2012.

- To support the SLF workforce development workstream, Scottish Government co-ordinates a Collaborative Leadership Development Board bringing together key national interests across public service. This group is co-ordinating the integration of Scotland-wide collaborative leadership development opportunities (such as cross-sectoral mentoring and short cycle secondments) and spear-heading efforts on cross-sector succession planning.
- The Board has begun to map collaborative leadership development across the system in Scotland so as to better target national programmes and promote local, regional and sectoral collaborative training.
 - **play a full and active part in the operation of local partnership arrangements in each part of Scotland and in particular in the integration of service provision.**

We are committed to driving an ever-closer integration and collaboration agenda to create seamless, effective and cost efficient public services for people in Scotland. The Scottish Government has already announced plans for the integration of adult health and social care, which will include a requirement for NHS Boards and local authority partners to work together to deliver nationally agreed outcomes, which will be included in Single Outcome Agreements (SOAs). Service integration in general is a key theme of the review of community planning described in para 62.

132. The Committee seeks clarification from the Scottish Government on what systems it is putting in place to facilitate the sharing of practice across all agencies and the creation of a solid evidence base.

Work is in progress to draw together and disseminate the existing evidence base for preventative spend in particular policy areas. For example, Health Scotland is considering developing a resource for local NHS Boards on the comparative cost effectiveness of a breadth of health improvement interventions. The Scottish Government has recently produced a review of the international evidence on what works to reduce reoffending, and is currently in the process of disseminating the key messages to a wide range of audiences. Work on a web-based directory of interventions and services for offenders is well underway, and when the directory launches in 2012 it will provide a comprehensive picture of current service provision and facilitate the sharing of information and practice across agencies. The Scottish Government has also undertaken to provide the Public Audit Committee with a draft outcomes framework in March 2012, which will help in the development of a new performance framework for Community Justice Authorities. Potential mechanisms for developing and sharing evidence on preventative spend in other policy areas will be explored.

135. The Committee invites the Scottish Government to—

- **detail how it will actively involve the third sector in the delivery of preventative spend policies and services;**

In the Change Fund for older people's services guidance for both 2011-12 and 2012-13 – issued by the Ministerial Strategic Group for Health and Community Care – the third sector is required to be an equal partner in the planning of older people's health and social care services in every area of Scotland. Each of the 32 Change Plans must be agreed and signed off by all four local health and social care partners (NHS, local authority, third sector and independent sector) before resources will be released. Generally speaking the Third Sector Interface (TSI) in any given locality has been representing the third sector.

Each 2011-12 Change Plan contained some information regarding which of the partners would be taking forward different pieces of work. The Joint Improvement Team (JIT), which is jointly sponsored by Scottish Government, COSLA and NHS Scotland, is currently gathering some more detailed information about services resourced via the Change Fund which involve the use of community capacity building and co-production approaches. The third sector is well practised in these approaches and has a significant role in delivering services that use them.

In recognition of the fact that partnership working at this level poses challenges for all partners, the JIT continues to provide practical support to health and social care partnerships, including directly to TSIs and other third sector organisations.

SCVO is represented on the Ministerial Strategic Group for Health and Community Care, and on the Delivery Group for Health and Social Care that supports it.

We expect the third sector to be key partners in the three funds to support preventative spending, building on the model of involvement they have had in the Change Fund for Reshaping Care for Older People.

Third sector representatives are part of the Early Years Taskforce which is developing the Early Years and Early Intervention Change Fund.

The Reducing Reoffending Change Fund will provide the opportunity to work alongside the third sector to develop programmes that will have a lasting impact on reoffending.

- **detail how it is ensuring that there are no unnecessary statutory or institutional barriers which prevent the third sector from participating in such delivery; and**

The Scottish Government is determined to help third sector bodies become more competitive, win contracts across public sector markets and become more sustainable and successful.

The Scottish Government's contract to Develop Markets for Third Sector Providers was awarded on 21 November to a consortium led by the Ready for Business LLP, a joint venture by Community Enterprise in Scotland (CEiS), Senscot and Social Firms Scotland. Other partners are KPMG and the Social Value Lab, with sub-contracting sourced from a range of specialist bodies.

Over the next two years or so the contractor will work across Scotland's public sector to:-

- improve the profile of third sector suppliers with the public sector procurement community and thereby open markets and opportunities to third sector suppliers;
- strengthen understanding and application of social and economic benefits in procurement (in particular use of appropriate community benefit clauses), and;
- apply routine use of co-production (including through the development of public-social partnerships) in the design of public services.
 - **demonstrate that there is ‘parity of esteem’¹²¹ between the third and public sectors in designing and commissioning services.**

In each of the Change Funds the third sector are key partners. The Government is taking particular steps to secure third-sector partnership in designing and commissioning services in general. For example, public-social partnerships (PSPs) offer a significant opportunity to pilot holistic approaches to meeting some of the most pressing social problems facing us today (for example enabling elderly people to remain in their homes or providing joined up services for offenders and those recently released targeted at reducing reoffending).

The PSP model typically consists of three phases:

- Third sector organisations and public bodies work in partnership to design a service that meets a particular need (with a focus on prevention)
- Third sector partners (potentially with public bodies and / or private sector partners) deliver that service as a pilot project – the pilot phase could be used to attract third party funding from eg charitable trusts, the BIG Lottery, philanthropists who will be interested in the model because of the public sector involvement
- Should the social outcomes be met, the public sector can then look at putting the service out to tender and funding the service in the longer term – the public sector partners would therefore need to show commitment to the project at the outset – it is this commitment that could help unlock the financial support from the third party funders

The Scottish Government awarded a £1.5m contract 'Developing Markets for Third Sector Partners' on 21 November 2011 (2011-14). This will have a focus on development of Community Benefit clauses and PSPs – the aim will be to help support PSP development across the country but also to focus on the development of 3-5 strategic multi-partner exemplar PSPs where the focus will be on preventative spend and where opportunities for bringing in external funding for the pilot stage will be maximised.

Financial challenges

138. The Committee invites the Scottish Government to detail what consideration it is giving to longer term budget settlements and whether this would assist local authorities, community planning partnerships and others in moving further to a preventative spend approach.

Please see response under paragraph 63.

142. The Committee invites the Scottish Government to outline—

- **what consideration has been given to the findings of Graham Allen MP in his reports on the Early Years for the UK Government;**
- **what consideration it has given, or will give, to the use of forms of social finance such as social impact bonds; and**
- **whether it considers such forms of finance would assist the public sector in the delivery of the preventative spend approach.**

The report from Graham Allen forms a key part of the evidence being considered by the Early Years Taskforce.

The use of Social Impact Bonds is under consideration by the Scottish Government in a number of policy areas, including early years.

The Scottish Government is aware of the pilots being run in prisons in England, and is observing how they develop. This Government does not favour expanding the involvement of the private sector in providing services to reduce reoffending or in speculative investment designed to return profits in this area. However, the idea of linking funding to the achievement of specific outcomes is one we are exploring.

148. The Committee supports this view and would welcome an indication from the Scottish Government as to whether such a presumption will be considered in the allocation of the Change Funds.

Please see response under paragraph 63.

149. The Committee also seeks clarification from the Scottish Government on—

- **whether it intends to implement the Christie Commission recommendation to review jointly with local government “the current funding arrangements for public services organisations to increase flexibility”;**
- **what consideration it is giving to “unifying” budget timetables;**
- **what its response is to the points made in evidence around coterminosity and budget pooling; and**
- **its planned approach to encourage a sense of shared responsibility and objective across local agencies and what specific discussions it has had on this.**

Please see response under paragraph 62, regarding budgets.

The Cabinet Secretary for Health, Wellbeing and Cities Strategy described to Parliament on 15 December 2011 the Scottish Government’s plans for integration of adult health and social care. Community Health Partnership committees will be replaced by Health and Social Care Partnerships, which will be the joint and equal responsibility of the NHS and local government, and which will work in partnership with the third and independent sectors. The proposals, which have been developed via a process of discussion and engagement with stakeholders across health and social care, and with representatives of the third and independent sectors and professional groups, will be the subject of a public consultation later this year, and are based on four key principles for reform:

1. Nationally agreed outcomes to apply across health and social care, focussing in the first instance on older people’s services;
2. Joint accountability via the Chief Executives of the Health Board and Local Authority to Ministers, Council Leaders and the public for delivery of those outcomes;
3. Integrated budgets; and
4. Strong clinical and professional leadership, and engagement of the third sector, in commissioning and planning of services.

Fundamental to these proposals is the Government’s commitment to improving the flexible use of resources across health and social care, building on work undertaken in recent years under the Integrated Resource Framework. Where money comes from – health or social care, or, indeed, for example, housing – will no longer be of consequence to the patient or service user. What will matter instead will be the extent to which partnerships achieve the maximum possible benefit for service users and patients, together and against the backdrop of shared outcomes and an integrated budget. A jointly appointed, senior accountable officer in each Health and Social Care Partnership will ensure that partners’ joint objectives are delivered within the

integrated budget. Further detail on mechanisms for achieving effective integration of resources will form part of the consultation on proposals. Progress has been made on unifying budget timetables across health and social care and will be kept under review.

National Performance Framework / Measuring outcomes

157. The Committee welcomes this approach, but given the challenges identified above would welcome further details from the Scottish Government in response to some of the specific recommendations of Audit Scotland and the Christie Commission in relation to CPPs. In particular, whether the Scottish Government plans to implement the following Christie recommendation—

- **that each CPP “develops and agrees with the Scottish Government a clear plan setting out how partner organisations will pursue local service integration to achieve outcomes”.**

The Scottish Government has already announced plans for the integration of adult health and social care, which will include a requirement for NHS Boards and local authority partners to work together to deliver nationally agreed outcomes, which will be included in Single Outcome Agreements.

Please see response under paragraph 62 regarding CPPs.

Access to budget information

162. The Committee notes that for the Parliament to carry out meaningful scrutiny of the Scottish Government’s spending plans it is reliant on the level of information which the Government is willing to provide. It is, therefore, concerning that information which has been requested on a key aspect of the Scottish Government’s economic strategy was not communicated to the two parliamentary committees with the primary responsibility for scrutinising this policy.

163. The Committee, therefore, recommends that the Scottish Government publishes full details of its resource to capital transfer plans prior to the debate on this report and, if not, explain why that is not possible.

Information about the transfer of Resource DEL to Capital DEL is included within the spending review document and further information was provided to SPICE shortly after publication.

The breakdown of the estimated future switches from resource DEL to capital DEL that underpins the graph on page 28 of the Spending Review document is outlined in the table below.

Estimated switch from resource to capital over the period of Spending Review (CDEL figures now include Consequentials from UK 2011 Autumn Statement)

	2012-13 £m	2013-14 £m	2014-15 £m
CDEL	2,646	2,379	2,490
Capital spending financed from NPD	353	686	774
Resource to Capital – estimated switches-			
Health	95	105	120
Enterprise agencies	95.9	107	103
Scottish Futures Funds	15.5	30.5	47
Total Resource to Capital	206.4	242.5	270
Total capital investment	3,205	3,308	3,534

Level 4 Figures

166. The Committee notes that the recently agreed revised Written Agreement states that there is a presumption that level 4 information will be released. However, it also needs to be released within a timescale which allows subject committees to make good use of the information in scrutinising the budget. The Committee regrets that this did not happen during the current budget scrutiny process.

167. The Committee, therefore, invites the Scottish Government to ask relevant officials to liaise with the FSU to establish a reasonable timetable for the release of level 4 figures in future years to enable the Committee to consider a revised Written Agreement before Summer recess 2012.

Following publication of *Scottish Spending Review 2011 and Draft Budget 2012-13* on 21 September, Level 4 information was provided to the Financial Scrutiny Unit prior to Cabinet Secretary appearances before the relevant parliamentary committees and in most cases on 24 October 2011. The detailed figures on agriculture and rural affairs were published before the Rural Affairs, Climate Change and Environment Committee met on 5 October.

The SG has agreed to provide a snapshot of the position for all portfolios to the Financial Scrutiny Unit of the parliament each year to aid Committees in their scrutiny of the Draft Budget – as was the case for all portfolios in Draft Budget 2011-12.

Level 4 information is now provided to the Financial Scrutiny Unit for all portfolios. Prior to 2009-10, such information was only provided to some Committees on request.

NHS boards spending plans

170. The Committee welcomes the commitment by the HS Committee to carry out further scrutiny of the spending plans of NHS boards and invites the Scottish Government to work with the HS Committee to ensure that sufficient budgetary information is provided both by NHS boards and in future draft budget documents.

The Scottish Government together with NHSScotland colleagues are supporting the HS Committee to ensure that a sufficient level of budgetary information is provided in future draft budget documents; this will build on improvements implemented in recent years. The Convener of the HS Committee has recently written to NHS Boards and the Boards will be providing further information and evidence to the HS Committee early in 2012.

Preventative Spending

172. The Committee would welcome an update from the Scottish Government on how it intends to assess the progress of the shift towards preventative spend in future budget documents.

The Scottish Government has previously agreed with the Committee to provide, in future draft budgets, assessment of the progress being made towards a more preventative approach. A more preventative approach would encompass both spend and other action, and we are at an early stage in considering how best to assess progress on both elements.

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. On reducing reoffending, work on a new performance framework for Community Justice Authorities (see answer to 132) will add to the Government's understanding of the spending on services more generally, but also specifically the share of spending on preventative services. Assessing intermediate outcomes will allow progress towards reducing reoffending to be measured, as well as the expenditure on services which aid in that progression.

Equalities

182. The Committee would welcome clarification as to whether—

- **the refresh of the national indicators within the NPF is cognisant of the introduction of the child poverty strategy and whether there will be a greater emphasis on tackling inequality; and**

- **there are any plans for a wider review of the NPF which would include consideration of the recent debate around measuring well-being.**

The refresh of the NPF did indeed pay due regard to the introduction of the Child Poverty strategy and has introduced a new National Indicator to signify this. The new indicator, called 'Children's deprivation' is measured by one of the statutory measures in the Child Poverty Strategy (combined income and material deprivation).

Greater emphasis on tackling inequality: Following the refresh of the National Indicator set, work will continue to present a fuller analysis of the equality and inequality dimensions of the measures within the indicator set.

The original National Performance Framework provided a range of both subjective and objective indicators that, when taken together, provided an overall picture of individual and societal wellbeing in Scotland. We made a Manifesto commitment to build on that and ensure an even broader assessment of national wellbeing and success, and this was delivered on 14 December when we published a refreshed NPF. In selecting which indicators to retain and add, the recent debate around measuring well-being was very much at the forefront of considerations. The refreshed NPF retains many of the previous indicators of subjective wellbeing, including mental wellbeing, satisfaction with neighbourhood, and perception of local crime rate, and adds a new subjective measure of self-assessed general health.

It also retains many of the more objective indicators that measure societal wellbeing beyond GDP, such as poverty, housing, crime victimisation, biodiversity and renewables, and adds several new indicators such as children's deprivation and cultural engagement.

Climate Change Targets

185. The Committee agrees with the RACCE Committee that there is a need for all subject committees to consider climate change issues as part of their budget scrutiny and the need for a clear read-across between relevant documents to ensure effective scrutiny. The Committee also agrees that for this scrutiny to be effective there is a need for a clear read across between the Scottish Government's Report on Proposals and Policies in meeting its emissions reductions targets and the draft budget.

The financial costs of the measures set out in *Low Carbon Scotland*, the Scottish Government's Report on Proposals and Policies (RPP) for meeting the 2010-2022 emissions targets, and the costs of measures contained in future RPPs, will fall across government, business and consumers. Scottish Government funding is often allocated at Level 4 or below. However, the Scottish Government will continue to work to ensure that, in so far as is reasonably practicable within these constraints, information about the funding

of measures intended to help the achievement of greenhouse gas emissions reduction targets is available to assist the scrutiny of draft budgets.

186. The Committee welcomes the initiative of the RACCE Committee in seeking to enhance scrutiny in this area.

The Government notes this point.

189. The Committee invites the Scottish Government to respond to this point made by the Carnegie UK Trust.

There is a sustainable development indicator set within the Scottish Government's National Performance Framework. This covers a range of key social, economic, environmental and wellbeing indicators for Scotland. The Scotland Performs web page provides up to date information on the Government's purpose targets, national outcomes and indicators.