

## Draft Budget 2015-16 – Guidance to other Committees

1. This paper sets out initial guidance to other committees on the draft budget process for 2015-16.

### Timetable

2. The Finance Committee has agreed the following timetable for scrutiny of Draft Budget 2015-16 —

- w/c 6 October 2014: Scottish Government publishes Draft Budget 2015-16
- 12 December 2014: committees report to the Finance Committee
- early January 2015: Finance Committee considers and agrees report on Draft Budget 2015-16
- 20 January 2015: Scottish Government introduces Budget Bill
- End of January 2015: Stage 1 debate (including debate on the Finance Committee report)
- Prior to February recess 2015: Stage 2 and Stage 3.

### Budget Adviser

3. The Committee has agreed that its current adviser, Gavin McEwen, will be retained to support scrutiny of the introduction of the devolved taxes as part of this year's budget process and to ask the FSU to provide the more general briefings on the draft budget. FSU will also take the lead in providing budget seminars for Members, parliament officials and advisers. It is likely that these will be held in the first week after October recess.

### Draft Budget Reports

4. Other committees are requested to submit draft budget reports to the Finance Committee by **Friday 12 December**. While these reports will still remain confidential until the publication of the Finance Committee report, subject committees will be responsible for publishing their reports on their committee websites (which will be linked to the Finance Committee report). As usual, in addition to highlighting issues and making recommendations to the Finance Committee, other committees are invited to direct recommendations and findings to their respective ministers, to supply their ministers with a copy of the report on publication and to seek a formal response from their individual ministers.

## Four Principles of Financial Scrutiny

5. The Finance Committee agreed in its report on Draft Budget 2014-15 to adopt the following 4 principles of financial scrutiny as a framework for the budget process:

- Affordability – the wider picture of revenue and expenditure and whether they are appropriately balanced;
- Prioritisation – a coherent and justifiable division between sectors and programmes;
- Value for Money – the extent to which public bodies are spending their allocations well and achieving outcomes; and
- Budget Processes – integration between public service planning and performance and financial management.

6. The Committee's previous budget adviser suggested that "optimum Parliamentary scrutiny will be achieved if there is a clear division of the principles to be examined between the Finance and subject committees."<sup>1</sup> The Adviser proposed that the Finance Committee should focus on affordability and budget processes while the subject committees should focus on prioritisation and value for money.

7. Subject committees and other committees are, therefore, invited to focus on prioritisation and value for money as defined above in carrying out budget scrutiny.

8. The Finance Committee has agreed to focus on affordability and budget processes and this approach along with a suggested approach for subject committees and other committees in relation to prioritisation and value for money is outlined below. In considering the reports made to it by other committees, the Finance Committee will also continue to have a co-ordinating role in terms of considering overall prioritisation within Draft Budget 2015-16.

### *Affordability*

9. This aspect of financial scrutiny relates to the need for a balanced budget which means expenditure should be no greater than the revenue source. The bulk of Scottish Government revenue comes from the block grant. However, as more financial powers are devolved to Holyrood the Scottish Government will have greater responsibility for raising the money which it spends. From April 2015 the Scottish Government will be able to raise additional revenue through the newly devolved Scottish taxes (Land and Buildings Transaction Tax and Landfill Tax) and through new borrowing powers for capital expenditure.

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<sup>1</sup>[http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Final\\_Budget\\_Adviser\\_Report\\_Scotland\\_WEB\\_UPDATED.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEB_UPDATED.pdf)

10. The Scottish Government has indicated that it will set out its approach to the Scottish taxes and new borrowing powers in Draft Budget 2015-16. The revised Written Agreement states that the Draft Budget will also include:

a commentary on the expected income, including tax receipt forecasts and the assumptions, rates and thresholds on which they are based. The commentary will also reflect the views of the Scottish Fiscal Commission on the level of receipts. To aid scrutiny of the Scottish Ministers' proposals, it is anticipated that the Commission will also publish separately its views on the forecast position (the precise arrangements for this will be a matter for the Commission once established, in discussion with the Scottish Government and the Scottish Parliament).<sup>2</sup>

11. The Committee has also recommended that the Scottish Fiscal Commission should be asked to provide a commentary on the Scottish Government's forecast for Non-Domestic Rates Income (NDRI).<sup>3</sup>

12. The Finance Committee has agreed that the focus of its scrutiny of Draft Budget 2015-16 is on the revenue side including the Scottish Government's approach to the devolved taxes, the new borrowing powers and NDRI.

#### *Prioritisation*

13. The previous budget adviser suggested that part "of the role of parliamentary scrutiny is to test whether the pledges and commitments made by any government are then reflected in the choices it makes in the allocation of resource within its budget setting process."<sup>4</sup>

14. Audit Scotland also emphasise the need for a priority-based approach to budget setting. They point out that the Scottish Government's annual budget is largely developed on an incremental basis. This approach "assumes the current pattern of spending is broadly right and that activities will continue on the same basis." While this approach is viewed as being useful when budgets are stable "it does not help prioritise spend or reduce costs in times of financial restraint."<sup>5</sup>

15. Audit Scotland state that a priority-based budgeting approach focuses "on the delivery of priority outcomes and allocates money to those services or areas which make the greatest contribution to delivering those outcomes."<sup>6</sup> However, in a survey conducted in 2011 Audit Scotland found that few public bodies have "undertaken a

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<sup>2</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Written\\_agreement\\_with\\_SG\\_-\\_Revised\\_December\\_2013.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Written_agreement_with_SG_-_Revised_December_2013.pdf)

<sup>3</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Reports/fir-14-01w.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fir-14-01w.pdf)

<sup>4</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Final\\_Budget\\_Adviser\\_Report\\_Scotland\\_WEB\\_UPDATED.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEB_UPDATED.pdf)

<sup>5</sup> [http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110825\\_scotlands\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf)

<sup>6</sup> [http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110825\\_scotlands\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf)

structured approach to budget setting in this way.”<sup>7</sup> However, they also acknowledge that the Scottish Government in establishing the National Performance Framework (NPF) have “taken the first step in adopting a priority-based approach to budgeting.”

**16. Subject Committees are invited to focus on prioritisation as part of their budget scrutiny including seeking evidence on:**

- **The extent to which the Scottish Government and other public bodies have moved towards a priority-based budgeting approach;**
- **Whether spending priorities support the Scottish Government’s Purpose;**
- **Whether current performance informs the choices about where to allocate resource;**
- **The extent to which Scotland Performs is embedded into the budget building process of the Scottish Government.**

#### *Value for Money*

17. Value for money is defined as the extent to which the public bodies are spending their allocations well and achieving outcomes. A recurring theme in the Parliament’s annual budget scrutiny is the need for a greater focus on outcomes. For example, in its report on strategic budget scrutiny in 2009 the Finance Committee concluded:

“It is clear from evidence to this inquiry that significant further development of the concept of outcome budgeting is required if difficult decisions on the prioritisation of funds are to be made on a rational basis.”<sup>8</sup>

18. The need for a more outcomes-based approach was also emphasised in the report of the Independent Budget Review Panel:

“there is a need to move towards a more outcomes-based approach to public service management and to improve the quality, availability and application of evaluation, monitoring and reporting data in relation to outcomes across the public sector in order to ensure that resources are applied to full benefit. This is vital if the Scottish Parliament is to exercise an effective monitoring and scrutiny role.”<sup>9</sup>

19. Audit Scotland state that without “good performance information on the activity and performance of services, it is not possible to identify what difference the spending will

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<sup>7</sup> [http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110825\\_scotlands\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110825_scotlands_public_finances.pdf)

<sup>8</sup> <http://archive.scottish.parliament.uk/s3/committees/finance/reports-09/fir09-02.htm>

<sup>9</sup> <http://www.scotland.gov.uk/About/Review/IndependentBudgetReview/Resources/final-report>

make.”<sup>10</sup> It points out that delivering many of the outcomes in the NPF are dependent on the year-on-year delivery of public services and that the national indicators “need to be supported by good information on the cost, activity and performance of services.”<sup>11</sup>

20. The Scottish Government state in its response to the Committee’s report on Draft Budget 2014-15 that, since 2007 “the NPF has provided a strategic direction for policy making in the public sector, provided a clear direction to move to outcomes-based policy making and has been fully integrated within our spending plans.”<sup>12</sup> The response also states that the parliament’s committees are “well placed to use Scotland Performs as a source to scrutinise the Government’s interventions and progress towards the National Outcomes.”<sup>13</sup>

21. One of the fifty national indicators within *Scotland Performs* is to “improve people’s perceptions of the quality of public services.”<sup>14</sup> The Scottish Government states that the indicator:

will show us nationally that, over a time period, public services are showing they understand people, that they are using performance and other data to drive their work, that the user experience of public services is improving and, crucially, public service providers are providing transparent feedback to users.

22. To support progress against this indicator the Scottish Government states that it is committed to “embedding an open and rigorous performance culture within Scotland’s public services; ensuring greater clarity around the objectives of public organisations; and establishing clearer lines of accountability that help to bolster standards of service and improve outcomes.”<sup>15</sup> It has asked “all parts of the public sector to report publicly on their plans to improve the value for money achieved by public services, actions undertaken and results achieved.”<sup>16</sup>

**23. Subject Committees are invited to focus on value for money as part of their budget scrutiny including seeking evidence on:**

- **The extent to which public bodies are spending their allocations well and achieving outcomes;**
- **The extent to which an open and rigorous performance culture has been embedded within the public services;**

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<sup>10</sup> [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_091105\\_scottish\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_091105_scottish_public_finances.pdf)

<sup>11</sup> [http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_091105\\_scottish\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_091105_scottish_public_finances.pdf)

<sup>12</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Draft\\_Budget\\_2014\\_response.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf)

<sup>13</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Draft\\_Budget\\_2014\\_response.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf)

<sup>14</sup> <http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/PSquality>

<sup>15</sup> <http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/PSquality>

<sup>16</sup> <http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/PSquality>

- **The extent to which the public services are using performance data to ensure value for money;**
- **Performance information such as, for example, the NPF, Single Outcome Agreements, Strategy for Justice in Scotland etc;**
- **The progress of public bodies in moving towards a more outcomes-based approach to public service management.**

### *Budget Processes*

24. This scrutiny test is concerned with examining the integration between public service planning and performance and financial management. The previous budget adviser suggested that one aspect of this area of scrutiny is the Scottish Government's commitment to the transformation of the public services. This commitment is set out within one of the sixteen national outcomes in *Scotland Performs*: "our public services are high quality, continually improving, efficient and responsive to local people's needs."<sup>17</sup> *Scotland Performs* states that the "achievement of this outcome will be determined by the ability of public services to act decisively and prioritise resources to maximise their positive impact."

25. The Scottish Government is committed to a reform agenda built on four pillars:

- Decisive shift towards prevention;
- Greater focus on 'place' to drive better partnership, collaboration and local delivery;
- Investing in people who deliver services;
- A more transparent public service culture which improves standards of performance.

26. The Scottish Government states it will lead the public services "into new ways of working and thinking, new understandings of people's needs and innovative ways to meet those needs."

**27. The Finance Committee has agreed to adopt a logic modelling approach to scrutinising progress in achieving this national outcome and, in the first instance, has asked SPICE to develop a logic model for this national outcome.**

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<sup>17</sup> <http://www.scotland.gov.uk/About/Performance/scotPerforms/outcome/pubServ>

## Alternative Spending Proposals

28. Given the new financial powers within the Scotland Act 2012 the Written Agreement has been amended to state that the Finance Committee's report on the Draft Budget:

“may include an alternative set of tax and spending proposals. Any revised spending proposals may not exceed the total proposed by Scottish Ministers unless there is a proposal for a commensurate increase in the level of Scottish taxes. Any recommendation to increase the level of taxes should include how the additional funding should be allocated. Any recommendation to decrease the level of taxes should include how the reduction is to be balanced by a reduction in the total spending proposed by Scottish Ministers.”<sup>18</sup>

**29. Subject committees and other committees are asked to consider whether they wish to make any alternative spending proposals within their own portfolio.**

## Equalities

30. The Equal Opportunities Committee has provided guidance on mainstreaming equalities issues within budget scrutiny and this is attached as **Annexe A**.

## Climate Change

31. The Rural Affairs, Climate Change and Environment Committee has provided guidance on mainstreaming the scrutiny of climate change issues in the draft budget and this is attached as **Annexe B**.

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<sup>18</sup> [http://www.scottish.parliament.uk/S4\\_FinanceCommittee/Written\\_agreement\\_with\\_SG\\_-\\_Revised\\_December\\_2013.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Written_agreement_with_SG_-_Revised_December_2013.pdf)

## Annexe A

### **Equal Opportunities Committee – Budget Scrutiny: Mainstreaming Equalities Guidance to Other Committees**

1. Committee scrutiny of the budget should include the impact of budget decisions on equality groups. What steps committees take to include equalities considerations in their draft budget scrutiny and their findings should be set out in their reports to the Finance Committee. The Equal Opportunities Committee will then take a cross-cutting view of the impact of budget decisions on equalities groups and report accordingly to the Finance Committee. This undertaking will also help to raise awareness of committees' equalities work generally, as well as assisting the Equal Opportunities Committee in fulfilling its wider responsibility to report to the Parliament on the observance of equal opportunities in the Parliament.

1. Committees are encouraged to bear the following questions in mind when planning and undertaking their draft budget scrutiny and to use them as a structure for a specific section on equalities in their reports—

- What budget decisions (to increase, maintain, decrease or refocus funding) will have the most significant impact on equality groups? On what evidence is this finding based?
- To what extent are these budget decisions also identified in the Scottish Government's accompanying Equality Statement?
- Overall, which equalities groups/strands are most likely to be adversely affected (and/or best protected) by budget decisions? What led the Committee to reach this conclusion?

2. For background, the Equality Act 2010 places a general duty on public authorities to—

- Eliminate discrimination, harassment and victimisation;
- Advance equality of opportunity between different groups;
- Foster good relations between different groups.

3. The new general equality duty, which came into force on 5 April 2011, requires public authorities (including the Scottish Ministers), and any organisation carrying out functions of a public nature, to consider the needs of protected groups, for example, when delivering services. The general equality duty has been in force since 5 April 2011 and replaces the previous equality duties on race, gender and disability. In addition, the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 came into force on 27 May 2012. The specific duties regulations aim to assist public authorities in meeting the general duty. Under the specific duties, listed public authorities were required to publish



their mainstreaming reports, equality outcomes; and, for those with 150 employees or more, gender pay gap information and an equal pay statement, by 30 April 2013.

4. The Equal Opportunities Committee's specific emphasis this year is on age, and it would be particularly helpful to hear evidence about the impact of the budget on those under the age of 25, or over the age of 60, in particular. Bearing in mind the characteristics protected under the Equality Act 2010 and the definition of equal opportunities contained in the Scotland Act 1998, it may also be helpful to consider the impact of budget decisions in terms of the following—

- Age;
- Sex (including gender reassignment and pregnancy/maternity);
- Race and religion/belief;
- Sexual orientation;
- Socio-economic status.

## Annexe B

### **Rural Affairs, Climate Change and Environment Committee – Budget Scrutiny: Mainstreaming Climate Change Guidance to Other Committees**

1. The Scottish Government states that all ministers are climate change ministers. As part of their budget scrutiny, relevant committees<sup>19</sup> are therefore asked to scrutinise how proposed spending in their particular remit has taken account of climate change issues and will help the Scottish Government meet the targets set out in the [Climate Change \(Scotland\) Act 2009](#) and the [Low Carbon Scotland: Meeting our Emissions Reduction Targets 2013-2027: The Second Report on Proposals and Policies \(RPP2\)](#).
2. The emissions reductions targets set out in the 2009 Act were missed in 2010 and 2011. The Scottish Government is expected to announce details relating to the 2012 target before the end of June 2014.
3. In terms of other background information for relevant committees, Part 4 of the Act places duties on public bodies relating to climate change, and the Single Outcome Agreements that the Scottish Government has with each local authority and community planning partners include measures to tackle climate change at the local level. In addition to this, the Scottish Government has established a Public Sector Climate Leaders Forum (PSCLF), which forms part of its wider climate change governance and delivery structures, led by the Minister for Environment and Climate Change, and supported by the Ministers for Housing and Welfare; Local Government and Planning; Energy, Enterprise and Tourism; Transport and Veterans; and External Affairs and International Development. The PSCLF members and champions network, and the Government's Climate Change Delivery Board, includes representatives from local government (both COSLA and SOLACE); business (Scottish Enterprise); health (NHS); justice (Scottish Police Authority); education (Scottish Funding Council and Scotland's Rural College); and infrastructure (Scottish Water and Transport Scotland).
4. When sending agreed budget reports to the Finance Committee, committees are asked to send a copy to the clerks of the RACCE Committee, highlighting the relevant sections which relate to climate change.
5. To support this scrutiny, the RACCE Committee intends to organise a specific meeting for MSPs and officials to examine climate change spending issues as they impact across the Scottish Government's budget and also to host a specific discussion ahead of the budget process with all relevant subject committee Conveners, to consider a cross-cutting approach to climate change spending scrutiny, possible areas of interest, and options for pursuing scrutiny.

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<sup>19</sup> The relevant committees identified by the RACCE Committee are: Education and Culture; Economy, Energy and Tourism; Equal Opportunities; European and External Relations; Finance; Health and Sport; Infrastructure and Capital Investment; Justice; and Local Government and Regeneration.

6. To supplement the support it makes available to other committees, RACCE clerks and SPICe staff will offer early meetings with clerking and SPICe colleagues supporting relevant committees to discuss issues of relevance to committees' work programmes and priorities.