Finance Committee
1st Report, 2015 (Session 4)

CONTENTS

Remit and membership
Report 1
INTRODUCTION 1
AFFORDABILITY 2
  LBTT 3
  Scottish Landfill Tax (SLfT) 8
  Block Grant Adjustment 9
  Establishing and Running the Devolved Taxes 11
  Potential Tax Gap for LBTT 14
  Scotland Act Implementation 15
  Non-Domestic Rates Income (NDRI) 16
  Borrowing 18
  Non-Profit Distributing (NPD) Model 20
  Long-Term Investment Commitments 21
PRIORITISATION 21
  Broadband 23
  Housing 24
  Police Reform 24
  Welfare Reform 25
  Climate Change Targets 26
  Fuel Poverty 26
VALUE FOR MONEY 27
  National Performance Framework (NPF) 27
  National Indicators 29
  Spending and Outcomes 30
BUDGET PROCESSES 31
  A Decisive Shift to Prevention 32
  EY Change Fund 33
  Reshaping Care for Older People (RCOP) Change Fund 37
  Integrated Care Fund 38
  Reducing Reoffending (RR) Change Fund 40
Finance Committee

Remit and membership

Remit:

1. The remit of the Finance Committee is to consider and report on-

   (a) any report or other document laid before the Parliament by members of the Scottish Government containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;

   (b) any report made by a committee setting out proposals concerning public expenditure;

   (c) Budget Bills; and

   (d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.

2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.

3. In these Rules, "public expenditure" means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

*(Standing Orders of the Scottish Parliament, Rule 6.6)*

Membership:

Gavin Brown
Malcolm Chisholm
Kenneth Gibson (Convener)
Jamie Hepburn (until 25 November 2014)
John Mason (Deputy Convener)
Mark McDonald (from 26 November 2014)
Michael McMahon
Jean Urquhart

Committee Clerking Team:

Clerk to the Committee
Jim Johnston

Senior Assistant Clerk
Catherine Fergusson

Assistant Clerk
Alan Hunter

Committee Assistant
Tom Williams
INTRODUCTION

1. Draft Budget 2015-16 ("the Draft Budget") was published by the Scottish Government ("the Government") on 9 October 2014. The Finance Committee ("the Committee") has agreed to adopt the following four principles of financial scrutiny as a framework for its budget scrutiny:

- 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.

2. The Committee’s former 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.”\(^1\) She proposed that the Finance Committee should focus on affordability and budget processes while the subject committees should focus on prioritisation and value for money.

3. The Committee issued guidance to the subject committees and other committees prior to Summer recess inviting them to focus on prioritisation and value for money. The submissions received have been useful in informing the Committee’s draft budget scrutiny.

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\(^1\) [http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WebUPDATED.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WebUPDATED.pdf)
The focus of the Committee’s own scrutiny this year has been on the bands and rates for the Land and Buildings Transactions Tax (LBTT) which comes into effect from 1 April 2015. The Committee issued a call for evidence in August and received 21 submissions.\footnote{http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/80289.aspx}

The Committee held an external meeting in Arran where it held workshop sessions with local businesses and local organisations prior to taking evidence from the Cabinet Secretary for Finance, Constitution and Economy (“the Cabinet Secretary”).

Briefings were provided to the Committee by the Budget Adviser, Professor Gavin McEwen and by the Financial Scrutiny Unit (FSU). The Committee thanks all those involved in providing evidence to support the budget scrutiny process.

The Committee considers a number of equalities issues and climate change issues throughout the report.

### AFFORDABILITY

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 Government revenue (around 84%) currently comes from the block grant from Westminster. However, as more financial powers are devolved to Holyrood the Government will have greater responsibility for raising the money which it spends.

From 1 April 2015 the Government will be able to raise revenue through the newly devolved Scottish taxes (LBTT and Scottish Landfill Tax) and through new borrowing powers for capital expenditure. The other devolved taxes are Council Tax and Non-domestic rates (NDR). Table 1 sets out their estimated value in 2015-16.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Forecast revenue (2015-16) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBTT</td>
<td>441</td>
</tr>
<tr>
<td>Landfill Tax</td>
<td>117</td>
</tr>
<tr>
<td>NDR Income</td>
<td>2,800</td>
</tr>
<tr>
<td>Council Tax</td>
<td>1,942</td>
</tr>
<tr>
<td>Total</td>
<td>5,300</td>
</tr>
</tbody>
</table>

The Scottish Fiscal Commission (SFC) has “endorsed as reasonable” the forecasts within its remit in relation to LBTT, Scottish Landfill Tax and NDR income (NDRI).

The Draft Budget states that the proposed rates for the devolved taxes are “intended to be revenue neutral – we have proposed rates and bands to generate the same level of revenues which we forecast the predecessor UK taxes would have

\footnote{http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_14-73.pdf, page 4}
generated in Scotland in 2015-16, had they continued to be charged here with no change in rates.” The Cabinet Secretary subsequently confirmed to the Committee that revenue neutrality was his “principal consideration” in setting the new rates for the devolved taxes.4

**LBTT**

12. The Government has announced the proposed rates and bands for LBTT in the Draft Budget. These are set out in Table 2.

**Table 2**

<table>
<thead>
<tr>
<th>Residential Transactions</th>
<th>Rate</th>
<th>Non-Residential Transactions</th>
<th>Rate</th>
<th>Non-Residential Leases</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £135,000</td>
<td>nil</td>
<td>Up to £150,000</td>
<td>nil</td>
<td>Up to £150,000</td>
<td>nil</td>
</tr>
<tr>
<td>£135,001 to £250,000</td>
<td>2.0%</td>
<td>£150,001 to £350,000</td>
<td>3.0%</td>
<td>Over £150,000</td>
<td>1.0%</td>
</tr>
<tr>
<td>£250,001 to £1m</td>
<td>10.0%</td>
<td>Over £350,000</td>
<td>4.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over £1m</td>
<td>12.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. The above are marginal rates, payable on the portion of the total value which falls within each band. The Committee welcomed the introduction of this progressive structure as a replacement of the Stamp Duty Land Tax (SDLT) slab structure in its Stage 1 report on the LBTT Bill.5

14. Since the publication of the Draft Budget the UK Government has also ended the slab structure for SDLT and introduced new marginal rates and thresholds as set out in Table 3.

**Table 3**

<table>
<thead>
<tr>
<th>Property Value</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £125,000</td>
<td>Nil</td>
</tr>
<tr>
<td>£125,001 to £250,000</td>
<td>2%</td>
</tr>
<tr>
<td>£250,001 to £925,00</td>
<td>5%</td>
</tr>
<tr>
<td>£925,001 to £1,500,00</td>
<td>10%</td>
</tr>
<tr>
<td>Over £1,500,000</td>
<td>12%</td>
</tr>
</tbody>
</table>

15. The UK Government has stated that as a result of the changes to SDLT the reduction in the block grant resulting from the devolution of stamp duty will be around £80m smaller.

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Residential Transactions

16. The Draft Budget states that the Government “have proposed tax rates and bands for residential transactions which would redistribute the tax burden from lower to higher value transactions” on the basis of proportionality to the ability to pay. “This will support the majority of first time buyers, improving the affordability of starter homes.”

17. The Draft Budget also states that:
   - the proposed rates and bands will take 5,000 additional house purchases out of tax compared to SDLT so that no tax will be payable;
   - reduce the tax charge relative to SDLT for a further 44,000 house purchases up to £325,000; and
   - ensure that 90 per cent of taxpayers are no worse off than under SDLT.

18. The introduction of the new rates for SDLT by the UK Government means that the number of transactions which will be subject to less tax is now 32,000 which means that 80% of taxpayers will now be no worse off than under SDLT. It also means that the threshold at which LBTT becomes higher than SDLT reduces from £325k to £254k.

19. While the evidence the Committee received broadly supported the structure of the tax on residential transactions there was some concern about the potential impact on the housing market of the proposed increases in tax for homes valued above £325k. The evidence which the Committee received predates the introduction of the new SDLT rates and thresholds and the discussion which follows is based on the SDLT rates and thresholds prior to the Autumn Statement.

20. Homes for Scotland took the view in written evidence that the tax on homes between £325k and £500k is “too punitive” and is expected to lead to “stagnation in this part of the market.” To mitigate this impact they proposed an additional band between £250k and £500k of 7%. The Scottish Property Federation (SPF) suggested in written evidence that the “main concern with the residential rates as set is that for families seeking to move into larger properties they may be deterred by increases in taxation.” They recommended an intermediate rate closer to 5-6% on homes between £250k and £1m.

21. Both Homes for Scotland and the SPF argued that the change in bands is too severe and “will possibly lead to some distortion in the market, with people making decisions on whether or not to proceed with a transaction.” Homes for Scotland suggested “there is a critical price point between £325,000 and around £500,000, where the tax increase will be in the region of 40 per cent, which is a significant

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8 Scottish Parliament Finance Committee, Official Report, 12 November 2014, Col. 2
increase.” However, a property consultant interviewed by the Budget Adviser suggested that the new tax structure would not have much impact on the property market and that decisions “on buying and selling houses are driven by factors other than tax.”

22. Homes for Scotland also suggested that the nil band should remain at £125k which would mean the buyer of an average house price of around £160k would still pay £900 less than under the previous UK stamp duty rates. This would also balance out the impact on mid to higher value properties. In contrast, the Scottish Building Federation (SBF) supported increasing the zero rate threshold and “believe this could boost the construction industry, in particular by stimulating affordable housing.”

23. In explaining the rationale for the residential rates the Cabinet Secretary stated that “nobody who acquired a property that cost under £325,000 would pay any more in tax and that, in many cases, people would pay significantly less than is currently paid under the stamp duty land tax system.” The Cabinet Secretary was questioned by the Committee about the potential negative impact of the 10% rate on transactions between £325k and £500k. He responded that the “average property price for every local authority area in the country is below the level at which any properties will be affected by an increase in taxation.”

Residential Revenue Forecast
24. The Government forecasts revenue of £295m for residential transactions in 2015-16. The basis for this forecast is set out in a methodology note which states that the Government has developed a “bottom-up” model for residential transactions. This approach utilises historical house price and sales data.

25. The model is expected to “slightly underestimate the number of very high value transactions” which the Government views as being prudent so as to avoid relying on “revenues from a small number of very high value transactions on an on-going basis.” The forecast assumes that house price growth will gradually return to its long run trend with growth of 5.0% in 2014-15 and 5.3% in 2015-16. The number of transactions is expected to grow by 7.4% in 2014-15 and 6.9% in 2015-16.

26. While the Scottish Fiscal Commission (SFC) endorsed the residential transactions forecast as reasonable it expressed concern at the quality and quantity of the available Scottish data. The SFC also noted that the forecast does not take into account the possibility of a behavioural response as a consequence of the relatively high tax rates applicable to the upper band of LBTT. This point was raised by Homes for Scotland who highlighted a “short-term shuffling around of housing transactions.” For example, house buyers who have reserved a new-build property and were planning to move in early next year are keen to defer to after 1 April if that
would mean paying less tax and there are some who are now keen to move in before 1 April for the same reason.

27. In relation to the forecast of average house price rises and the volume of transactions the SFC suggested that the forecasts would ideally “be based on a reliable statistical model which took account of the economic determinants of these variables.” However, this approach is “notoriously difficult” and the SFC recommended the development of “simple statistical models of the path of the house price and transactions data, either individually or jointly.”

28. The OBR forecast for residential LBTT is £328m which is £33m higher than the Government forecast. This is despite the OBR including forestalling and other behavioural effects which reduces their forecast. The OBR states that the receipts of “residential LBTT will be depressed in 2015-16 by the unwinding of forestalling from those who brought forward their purchase of expensive properties into 2014-15.”

29. The OBR explains that its higher forecast relevant to the Government’s is “consistent with the evidence of stronger receipts so far in 2014-15 from the Scottish element of UK SDLT than we expected in March.” However, the OBR suggests that “the difference between the two estimates should not be regarded as significant.”

30. The OBR forecast assumes some behavioural responses including the bringing forward of some higher-priced transactions in order to avoid the higher rates in 2015-16 and some delayed transactions at the lower end. This reduces their LBTT forecast for 2015-16 by £25m.

31. The OBR wrote to the Government on 6 November 2014 requesting forecasts for the devolved taxes for the five year period to 2019-20. The Government responded that it publishes its tax forecasts “to meet the scrutiny and reporting requirements of the Scottish Parliament, which at present extend to the current Spending Review period.”

32. The Cabinet Secretary was asked by the Committee whether the Government had carried out any modelling of the behavioural response to the proposed rates. He responded that he considered this to be “an almost impossible piece of analysis to undertake” but “we have taken a conservative view about the volume of transactions that we expect at the higher end of property charges.” When it was pointed out that the OBR forecast includes a behavioural analysis the Cabinet Secretary responded that the Government have constructed a “more sophisticated model for the calculation of LBTT.”

33. The Committee notes the Government’s view that, while it did not carry out a behavioural analysis, it has taken a conservative view of tax receipts at the higher end of the market. The SFC states that it will review the evidence

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presented to the Committee on this issue. The Committee asks the Government to provide a breakdown of the expected receipts for each band and recommends that the Government provides such a breakdown in future forecasts in the draft budget document.

34. The Committee recommends that the SFC provides an update on the Government’s 2015-16 forecast relative to the available outturn figures alongside its commentary on the 2016-17 forecast. This should include an analysis of the behavioural response to the introduction of LBTT.

35. The Committee notes that the OBR is required to produce five year forecasts for the devolved taxes and recommends that the Government should also aim to produce five year forecasts.

Non-Residential Transactions

36. The Draft Budget states that the proposed rates and bands for non-residential transactions “would ensure that Scotland remains a competitive and attractive location for business.”21 Under the proposals the Government states that 95% of taxpayers will be no worse off than under SDLT.

37. Homes for Scotland raised concerns in relation to the purchase of land for residential development which they suggested will mainly exceed £350k. They suggested that this means an increase in tax of 0.5% from the current maximum charge of 4.0% under SDLT.22 Homes for Scotland contended that this increase “is not helpful and immediately puts Scotland at a disadvantage to purchases of land in England and Wales.” It could also impede attracting housing investment from south of the border.

38. The SPF are also concerned about the increase to 4.5% in relation to the impact on commercial property investment which mainly relates to transactions above £2m and will mean higher tax than under SDLT. They are concerned about the negative impact this may have on the market in Scotland vis-à-vis the rest of the UK especially given the competitive nature of the commercial property industry. The SPF recommended an initial top rate of 4% “in order to be perceived to be as competitive as the UK SDLT and to then consider adjustments in the light of market reaction.”23

39. In response to these concerns the Cabinet Secretary pointed out that even at £10m the cost difference between SDLT and LBTT would be £40,250 or 0.4%. His view is that the difference is “fairly marginal”, whereas, “at the local level, there will be significant reductions in the tax charges to enable more vibrancy in the transactions that are undertaken.”24

Non-Residential Revenue Forecasts

40. The Government forecasts revenue of £146m for non-residential transactions in 2015-16. The methodology note states that the modelling of revenue from these

22 The 4.5% rate applies only to the value of the transaction above £350k while the 4.0% rate applies to the entire cost of the transaction.
23 Scottish property Federation, Written submission
24 Scottish Parliament Finance Committee, Official Report, 12 November 2014, Col. 15
transactions is “more challenging owing to the heterogeneous structure of the tax base and the limited data available.” The Government uses a similar approach to the OBR and the forecast is based on the OBR’s assumptions of growth in UK commercial property prices and the volume of such transactions. A three year average of outturn receipts is used as the baseline.

41. The SFC states that “this part of the forecast is liable to significant uncertainty which is not possible to quantify” and recommends that a new model “with some explanation of the economic drivers of the revenue variations, and better data, are needed in the longer term.”

42. The OBR forecast for non-residential LBTT is £171m which is £25m higher than the Government’s forecast. The OBR states that the “slower growth in commercial LBTT relative to residential LBTT primarily reflects the weaker growth expected in commercial property prices and transactions.”

43. The Committee asks the Government why their forecast is £25m lower than the OBR despite using a similar approach.

44. The Committee recommends that the SFC provides an update on the Government’s 2015-16 forecast relative to the available outturn figures alongside its commentary on the 2016-17 forecast.

Non-Residential Leases

45. The Draft Budget states that “the proposed rates and bands for non-residential leases ensure parity between the taxing of lease transactions in Scotland and the rest of the United Kingdom.”

46. The Committee asks why no separate forecast is provided for receipts from non-residential leases.

Scottish Landfill Tax (SLfT)

47. The proposed rates for SLfT are £82.60 per tonne for the standard rate and £2.60 per tonne for the lower rate. These are the same rates as those planned for UK Landfill Tax for 2015-16. The forecast revenues for 2015-16 are £117m.

48. The Committee recommended in its Stage 1 report on the Landfill Tax (Scotland) Bill that the Government “provide greater clarity regarding the period to be covered when the rates are announced and whether there will be an escalator.” The Government responded that “Once approved by Parliament, the rates will apply until a subsequent order is laid. In advance of each annual draft Budget process, consideration will be given to whether rates should be adjusted taking into account all relevant factors including tax rates applying south of the Border.”

49. The Cabinet Secretary was asked by the Committee about the potential impact of a change in the UK rates for Landfill Tax especially in relation to waste tourism.

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26 http://www.scotland.gov.uk/Publications/2014/10/2706 paragraph 15
27 http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fiR-13-06w.pdf paragraph 22
He responded that the UK rates for 2015-16 have already been set but if “the UK Government was to change, I would have to reflect on the matter in due course.”

**Revenue Forecast**

50. The Government forecast revenue of £117m for SLfT for 2015-16. This is based on a “model for forecasting SLfT receipts that applies the actual or projected rate of tax to actual or projected volumes of waste disposals to landfill in Scotland.” The forecast assumes that the Government will meet its disposals to landfill target within *Scotland’s Zero Waste Plan*.

51. The latest OBR forecast for SLfT is £103m and is based on a share of UK landfill which has been constant since 2009-10 at 8.9%.

52. The SFC state that the Government’s “forecasts reflect data from site visits while the OBR forecasts are based on HMRC’s revenue data. We will monitor in the future to see which is the more accurate and robust approach.” Overall, the SFC is content that the Government’s methodology is “not unreasonable.”

53. At a UK level there is a 16% differential between the reported waste disposals and the taxed waste disposals. However, as HMRC is unable to provide disaggregated data for Scotland it is not possible to determine how much of the 16% differential relates to Scotland. The Government has, therefore, reduced its forecast for SLfT receipts by 16%.

54. The Committee recommends that the SFC provides an update on the Government’s 2015-16 forecast relative to the available outturn figures alongside its commentary on the 2016-17 forecast.

**Block Grant Adjustment**

55. The UK and Scottish governments have yet to agree the block grant adjustment for the devolved taxes. The Draft Budget states that “we have assumed that the block grant in 2015-16 will be reduced by a sum that will enable us to meet the funding requirements of the Budget and potentially establish the first payment into the cash reserve.” Once an adjustment has been agreed, if necessary, the budget will be adjusted and this will be reflected in the Budget Bill.

56. The Cabinet Secretary told the Committee “I have set the budget on the basis that the block grant adjustment will provide the ability to support the budget and contribute to the cash reserve in order to smooth out any fluctuations in tax performance over the years. That will be the basis of my thinking when I go into discussions with the Chief Secretary to the Treasury.” He also confirmed that the

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31 [http://www.scottishfiscalcommission.org/media/media_364407_en.pdf](http://www.scottishfiscalcommission.org/media/media_364407_en.pdf)
33 [Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 18](http://www.scotland.gov.uk/Publications/2014/10/7664)
draft budget is “predicated on the realisation of the total of £558 million that I have estimated will come from land and buildings transaction tax and the Scottish landfill tax to meet the budget requirements.”

57. The Committee has previously raised concerns regarding the delay in agreeing the adjustment to the block grant for the devolved taxes and raised the matter again with the Cabinet Secretary. He responded that he has pressed the Treasury hard to resolve the issue but that they are “still stalling, which is unacceptable” and “I am very disappointed that that has been going on. It has been completely unnecessary.”

58. The Cabinet Secretary also explained to the Committee that the Treasury has sought to include a “constraining factor” within the block grant adjustment. This means attempting to calculate up to about 2029 or 2030 what the devolved taxes would generate and adjust the block grant on this basis so that neither the UK or Scotland would be better or worse off. The Cabinet Secretary’s view is that this “totally defeats the point of devolving the tax” and he has totally resisted it.

59. The Cabinet Secretary suggested that this “is a salutary warning to us all about some of the practical implications of the Smith commission’s recommendations.” The Government does not want “a precedent to be set on the periphery – 1.5 per cent of our budget – that will inhibit the block grant adjustment on bigger issues affecting our budget in years to come. Those issues are significant.”

60. The Chief Secretary to the Treasury wrote to the Cabinet Secretary on 28 November 2014 proposing that “we initially seek to agree an adjustment just for 2015-16 rather than a permanent solution.” The Cabinet Secretary told the Committee: “You will understand my unease about the terminology that is used in the letter and why I am taking my time to consider it carefully, because there are big issues at stake to do with the future funding of the public finances of Scotland.”

61. The Committee finds it unacceptable that the Parliament is being asked to consider the Draft Budget without knowing what impact the block grant adjustment may have on the Government’s spending proposals. The Committee’s view is that the adjustment needs to be agreed and fully explained to the Parliament prior to Stage 3 of the Budget Bill.

62. The Committee emphasises that there needs to be much greater transparency from both governments and the Scottish Government should consult with the Parliament prior to the agreement of future adjustments to the block grant arising from the devolution of further fiscal powers. The Committee also emphasises that sufficient time is made available to allow

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34 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 33
37 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 38
38 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 38
39 http://www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/141125_SDLT_and_LfT_BGA_handling_for_AS.pdf
40 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 39
effective parliamentary scrutiny of the adjustments to the block grant prior to implementation. The Committee recommends that the Written Agreement is amended to include reference to the procedure and timings for the Government to consult with the Committee on future adjustments.

63. The Committee is concerned that UK Ministers have on occasion not been available to provide evidence that would have allowed the Committee to scrutinise the issues under consideration in the negotiations.41

64. The Committee notes that the Cabinet Secretary had yet to respond to the proposal from the UK Government, when he gave evidence on 1 December, to have an initial adjustment just for 2015-16. The Committee would be disappointed if the initial adjustment is for one year, but if this is the case, recommends there should be a reconciliation with outturn receipts.42

65. The Committee supports the Cabinet Secretary in resisting the inclusion of a “constraining factor” within the block grant adjustment and agrees that it totally defeats the point of devolving the taxes.

66. The Committee will raise these issues with the Chief Secretary to the Treasury when he provides evidence on 28 January 2015.

67. The Committee notes the Cabinet Secretary’s concern about the practical implications of some of the Smith Commission recommendations and intends to carry out further work on the proposals for fiscal devolution in the New Year including in relation to the impact on the block grant.

Establishing and Running the Devolved Taxes

68. The Government’s original estimate for setting up and collecting the devolved taxes up to March 2020 was £16.7m. A comparable estimate of £22.3m for HMRC to do the same work was also provided. The Revenue Scotland and Tax Powers (RSTP) Bill’s Financial Memorandum (FM) confirmed the original estimate of £16.7m but also included additional costs of £3.5m for new activities.

69. Revenue Scotland’s latest progress report estimates a total cost of £21.2m for the first five years of operation.43 This figure excludes the estimated cost of £730k for a Scottish Tax Tribunal. These costs were included in the RSTP Bill FM and the previous progress report but have now been excluded as being “quite separate.” On this basis the estimated total costs for establishing and running the devolved taxes have increased from £19.5m to £21.2m.

Revenue Scotland

70. The Committee previously considered the estimated costs for Revenue Scotland as part of its Stage 1 scrutiny of the RSTP Bill. The staff and non-staff set

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41 Gavin Brown dissented from this paragraph.
42 Gavin Brown dissented from this sentence.
43 http://www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/Papers_for_the_public(1).pdf
up costs and running costs were provided in the RSTPB Bill FM and are set out in Table 3 below.

Table 4

<table>
<thead>
<tr>
<th>Revenue Scotland</th>
<th>Staff (£000)</th>
<th>Non-Staff (£000)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set-up costs (July 2013- March 2015)</td>
<td>1,810</td>
<td>455</td>
<td>2,265</td>
</tr>
<tr>
<td>Running costs (April 2015-March 2020)</td>
<td>6,550</td>
<td>3,700</td>
<td>10,250</td>
</tr>
</tbody>
</table>

71. An additional estimate of £1.5m was also provided for IT investment in Revenue Scotland.

**IT System**

72. The Committee sought assurances from Revenue Scotland when they gave evidence in November that the IT system is being tested robustly and that there is a contingency plan in place. They gave the committee “an absolute assurance that everything is being thoroughly tested” and that the testing should be complete by the end of January. If the IT system is not ready by 1 April then the contingency plan is to use paper returns.

73. Since then Audit Scotland have published a report on its recent audit of the preparations for the implementation of the Scotland Act 2012. Audit Scotland found that there were delays within Revenue Scotland in procuring the IT systems to collect and administer the devolved taxes and that these delays have “reduced the timetable to develop the IT system and appoint staff.” Given this reduced timetable, “the IT implementation group is developing contingency plans” and Revenue Scotland plans to decide in December 2014 whether it needs to implement them.

74. Audit Scotland state that Revenue Scotland “could have managed the IT implementation project more effectively at an earlier stage, by making the decision to appoint an external supplier sooner. The timescale for implementing the new system is now very tight and there is a risk that the full IT system will not be in pace in time.”

75. Given the concerns raised by Audit Scotland the Committee took further oral evidence from Revenue Scotland, RoS and SEPA at its meeting on 17 December.

76. The Committee welcomes the further update from Revenue Scotland, RoS and SEPA and notes the evidence provided on 17 December that the organisations “are on track to deliver”. The Committee will continue to monitor progress ahead of implementation and will invite all three organisations to provide written and oral evidence in March 2015.

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paragraph 27
**Staffing**

77. Revenue Scotland’s recent 6 monthly progress report states that it “is now set up as two divisions within the Scottish Government with around 40 staff in total.”\(^{47}\) This compares with an estimate of 39 staff in the RSTP Bill FM at a cost of £1.81m. The progress report states that there has been “increased investment in staff costs for implementation, with some of these costs now falling in 2015-16.”\(^{48}\)

78. Revenue Scotland has “agreed the anticipated future staffing structure” of 41 staff for the first year of live operation. This compares with an estimate of 30 staff in the RSTP Bill FM at a cost of £6.5m for the first five years of operation. The progress report states that “we have…decided to slightly increase operational staffing” for the first year of operation. This is to provide “additional capacity in the critical early months.” The estimated staff running costs for 2015-16 are £1.73m. The increase in staff is partly explained by an extra three staff for compliance activity.

79. Audit Scotland considered that the staff required for the implementation programme “were not in place early enough” which means “it has taken longer than originally proposed to establish arrangements for collecting the devolved taxes.”\(^{49}\) There is also a risk that it will not fill all of its operational posts in line with its revised plans. If these posts are not filled by February 2015 then there is a risk that Revenue Scotland “will not have the skills and expertise required to manage the devolved taxes effectively from 1 April 2015.”\(^{50}\)

80. The Committee asks the Government to provide updated figures for staff and non-staff set-up costs and running costs for Revenue Scotland compared to the initial estimate in the RSTP Bill FM. The Committee would also welcome confirmation of the final staff numbers for implementation posts and operational posts compared with the initial estimates in the FM.

**SEPA**

81. The additional costs of administering SLfT incurred by SEPA will be met by the Government. The RSTP Bill FM estimated set-up costs of £625k and running costs for the first five years of £1.6m for SEPA. The FM also states that £230k will be made available to SEPA for compliance activity in 2015-16 and £1.05m for processing and administering SLfT from illegal dumping between April 2015 and March 2020.

82. The RSTP Bill FM stated that the “intention is for Revenue Scotland to delegate operational responsibility for the collection of SLfT to SEPA.” SEPA’s latest progress report states that in April 2014 it was agreed that SEPA “will not collect tax data or...”\(^{51}\)

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process any SLfT transactions on behalf of Revenue Scotland.” Rather, “the focus for SEPA will be on the collection of tax in the wider sense.” SEPA’s role will relate mainly to compliance activity and the analysis and provision of landfill site data to Revenue Scotland. SEPA’s set up costs have been reduced by £250k while the running costs have been reduced from £610k to just under £600k.

83. The Committee notes that SEPA will not now have a role in collecting SLfT and asks why this does not appear to have had any impact on its running costs.

84. The Committee asks the Government to provide updated figures for staff and non-staff set-up costs and running costs for SEPA compared to the initial estimate in the RSTP Bill FM.

Registers of Scotland
85. RoS is self-funding from the income it receives for the services it provides. The costs it incurs in relation to LBTT will be met by the Government. The RSTP Bill FM estimated set-up costs of £335k and running costs for the first five years of £1.625m. The latest progress report provided by RoS does not indicate that there has been any change to these estimates.

Potential Tax Gap for LBTT
86. The RSTP Bill FM stated that HMRC’s most recent best estimate of the UK tax gap for SDLT in 2011/12 was £200m which suggests a tax gap of £9m in Scotland. The FM recognises that some of the reasons for the gap for SDLT such as sub-sale relief have been addressed by the introduction of LBTT. “Assuming that the policy differences between LBTT and SDLT reduce that tax gap by 50%, a conservative estimate of the remaining tax gap for LBTT could be in the region of £4.5m a year.”

87. The RSTP Bill FM provided initial estimates of £390k for a team of 9 staff in Revenue Scotland for compliance and debt management. Revenue Scotland’s progress report in March 2014 stated that “it has become clear that we need to take a stronger approach to combatting tax avoidance” and we “now plan to make a modest additional investment in tax compliance of £230k” in 2015-16 “aimed at reducing the expected tax gap.” The revised estimate is £259k which includes £165k for three staff at Revenue Scotland.

88. In response to questioning from the Committee about the impact of the General Anti-Avoidance Rule (GAAR), Revenue Scotland advised that the additional compliance staff “will use the powers that the Parliament has given them to go after the money.” Revenue Scotland accepted that they are not able to estimate the


amount of SDLT which is currently unpaid in Scotland. However, they will be able to provide details of the additional amount of tax revenue which the compliance officers collect.

89. The Cabinet Secretary explained to the Committee that he views the issue in terms of “tax maximisation” rather than a tax gap and this is the aim of the GAAR. “Our compliance and collection arrangements are designed to do exactly that.”\(^{54}\)

90. The Public Audit Committee (PAC) has written to Revenue Scotland asking what plans it has to report annually on its performance including in relation to compliance yield.\(^{55}\)

91. The Committee asks Revenue Scotland to provide updated figures for total annual staff running costs for compliance activity in relation to LBTT.

92. The Committee recommends that Revenue Scotland’s annual report includes details of the compliance yield (additional revenue generated through compliance activities) including by yield type, for example, through closing tax loopholes.

93. The Committee asks what amount of tax the Government expects to collect as a result of compliance activity.

Scotland Act Implementation

94. A separate budget line has been included in draft budgets since 2013-14 to fund the implementation of the financial provisions within the Scotland Act 2012. The allocations in each draft budget are provided in Table 5 below.

| Table 5 |
|-----------------|-----------------|-----------------|
|                | 2013-14 (£m)    | 2014-15 (£m)    | 2015-16 (£m)    |
| Draft Budget 2013-14 | 3.5             | -               | -               |
| Draft Budget 2014-15 | 3.5             | 10.0            | 40.0            |
| Draft Budget 2015-16 | -               | 10.0            | 25.7            |

95. The allocation for 2015-16 has been reduced from £40m to £25.7m. This is partly explained by the transfer of £4.3m to a new budget line for Revenue Scotland for 2015-16.

96. The Committee asks why the budget line for Scotland Act 2012 implementation has been reduced from £40m to £25.7m for 2015-16 and to provide a breakdown of the allocation of £25.7m.

97. The Committee asks for a breakdown of the £4.3m allocated to Revenue Scotland including the total allocated to RoS and SEPA.

\(^{54}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 16

\(^{55}\) http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/84962.aspx
Scottish rate of Income Tax (SRIT)

98. HMRC have revised the costs for the implementation of SRIT from the original estimate of £40m-£45m to around £35m-40m. HMRC has invoiced the Government for £1,018,713 for its work in 2013-14 and provided an estimate of £5-6m for its work in 2014-15.  


Reconciling the forecasts with actual receipts

100. The Draft Budget states that as “there is a natural time lag between the tax liability crystallising and collection of tax receipts, we will not receive a full year of tax revenue in cash terms in the first year of operation of these taxes.” If tax receipts exceed forecasts then the surplus will be credited to a Scottish cash reserve “with the intention that they are used for any potential future deficits” and “will provide the flexibility to offset good and bad years.” The Scottish cash reserve will be held within the UK Government and will be independent of the Budget Exchange Mechanism which allows for carry over of up to 0.6% of DEL Resource and 1.5% of DEL Capital from one financial year to another.

101. If tax receipts are less than the forecasts then the Government can either borrow money from HM Treasury or adjust expenditure to match the shortfall. However, the Government has previously informed the Committee that while in theory it could borrow in this way it was not expected to be a significant issue. “Any divergences will be managed over time in much the same way as for non-domestic rates, so that forecasts and actual receipts are kept in balance taking one year with another.”

102. The Cabinet Secretary suggested to the Committee that if the tax receipts exceed forecasts then the Government should have the flexibility to either spend the revenues or put them in the cash reserve. The Committee agrees with this and will raise the matter with the Chief Secretary to the Treasury.

Non-Domestic Rates Income (NDRI)

103. Table 6 presents the NDR projections presented in the various draft budgets since the last Spending Review.

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57 http://www.scotland.gov.uk/Publications/2014/10/2706_paragraph_17
59 http://www.scottish.parliament.uk/S4_FinanceCommittee/letter_from_JS_on_Scotland_Act_report.pdf
Table 6

<table>
<thead>
<tr>
<th>NDRI projections (£m)</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft Budget 2012-13</td>
<td>2,272</td>
<td>2,435</td>
<td>2,664</td>
<td></td>
</tr>
<tr>
<td>Draft Budget 2013-14</td>
<td>2,272</td>
<td>2,435</td>
<td>2,664</td>
<td></td>
</tr>
<tr>
<td>Draft Budget 2014-15</td>
<td>2,435</td>
<td>2,668</td>
<td>2,883</td>
<td></td>
</tr>
<tr>
<td>Draft Budget 2015-16</td>
<td>2,649.5</td>
<td>2,799.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

104. The FSU advise that NDRI is projected to grow by 4% in real terms in 2015-16.

105. The Cabinet Secretary stated in his draft budget statement that between 2008 and 2014 the difference between the outturn figures and the forecast for NDRI was £40m out of a total of £13.1 billion or 0.3%. Since the statement, the 2013-14 Notified Amounts have been received from local authorities which show returns of £2,366m which is £79m less than the previous estimate of £2,445.6m. There is now a £68.4m deficit rather than a £10.6m surplus for 2013-14. The Government has provided details of the outturn figures in relation to the draft budget estimates and these are reproduced in Table 7.

Table 7

<table>
<thead>
<tr>
<th>Year</th>
<th>Total collected</th>
<th>Total distributable</th>
<th>Surplus/Deficit</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>1,923.8</td>
<td>1,962.8</td>
<td>-39.0</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2009-10</td>
<td>2,009.8</td>
<td>2,165.1</td>
<td>-155.3</td>
<td>-7.2%</td>
</tr>
<tr>
<td>2010-11</td>
<td>2,138.2</td>
<td>2,068.2</td>
<td>70.0</td>
<td>3.4%</td>
</tr>
<tr>
<td>2011-12</td>
<td>2,251.1</td>
<td>2,182.0</td>
<td>69.1</td>
<td>3.2%</td>
</tr>
<tr>
<td>2012-13</td>
<td>2,346.9</td>
<td>2,263.0</td>
<td>83.9</td>
<td>3.7%</td>
</tr>
<tr>
<td>2013-14 (revised)</td>
<td>2,366.6</td>
<td>2,435.0</td>
<td>-68.4</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Total</td>
<td>13,036.4</td>
<td>13,076.1</td>
<td>-39.7</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

106. The most recently published Audit Scotland audit of the NDR account states that the total collected for 2012-13 was £2,378m (compared to £2,346.9m in Table 7) and the total distributed was £2,263.60 The surplus for 2012-13 was £115m. £64m was also collected in relation to previous years and £48m was distributed leaving a surplus of £16m. The total surplus carried forward was £131m resulting in a balance of £165m at 1 April 2013. The report states that: “The surplus in 2012/13 has been carried forward to 2013/14 increasing the amount available for distribution in that year. Taking one year with another all NDR rates paid to Scottish Ministers are redistributed to authorities.”61

107. The Committee asks the Government to explain why the figure for 2012-13 in Table 7 is different from the audited figure.

108. The Committee recommends that in future the SFC report on NDRI should include commentary on the latest available balance of the NDR account and

60 http://wwwaudit-scotlandgovuk/docscentral2013fa_1213_sg_non_domestic_ratingpdf
61 http://wwwaudit-scotlandgovuk/docscentral2013fa_1213_sg_non_domestic_ratingpdf
the implications for the draft budget if the outturn figures vary from the forecast.

**NDRI Forecast**

109. The remit of the SFC includes scrutinising the economic determinants underpinning the forecast receipts from NDR. The SFC raised concerns that the Government’s forecast buoyancy growth rate of 1.55% “seems to be on the optimistic side, implying an increase in buoyancy as large as anything observed in the available data, rather than an historical average.” The Cabinet Secretary announced in his draft budget statement that he had, therefore, revised down the NDRI forecast for 2015-16 from £2,883m in the previous draft budget to £2,799.5m.

110. The SFC also recommended that “work continues on improving understanding of the economic determinants underlying the forecasts as a matter of priority and that it would pay to make the forecasts “as reliable as possible as quickly as possible.”

111. **The Committee recommends that in future the SFC commentary on NDRI should include an analysis of the economic determinants underlying the forecast.**

**Recovery Timetable**

112. The Local Government and Regeneration (LGR) Committee received evidence from a number of councils requesting additional flexibility regarding the 6 month recovery timetable for NDRI. The Cabinet Secretary stated that he would be prepared to consider this and the LGR Committee suggest there is merit in revisiting the issue as part of the wider debate on local government financing.

**Borrowing**

113. The Scotland Act 2012 provides Scottish Ministers with borrowing powers for three purposes from April 2015—

- up to 10% of the Capital DEL budget for capital spending for each year with a statutory limit of £2.2 billion;
- up to £200m annually and £500m in total to deal with deviations between forecast and actual revenues;
- an appropriate cash working balance to deal with temporary shortfalls between receipts and expenditure.

114. The Committee examined these new powers as part of its scrutiny of the implementation of the Scotland Act 2012. The Committee noted evidence from Audit Scotland that borrowing “should be affordable, prudent and sustainable and supported by clear borrowing policies and practices” and recommended that the draft budget should include “details of the purpose and rationale for any proposed borrowing.”

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http://www.scottish.parliament.uk/S4_FinanceCommittee/Reports/fiR-13-08w.pdf paragraph’s 126-128
115. The Cabinet Secretary stated in a letter to the Convener dated 13 November 2013 that each draft budget will “contain information about the Government’s plans for utilising the borrowing powers introduced in the Scotland Act including the purpose and rationale of borrowing and an annual update on the costs of repayment and the Scottish cash reserve.” The Written Agreement states that the Government “will provide details of any planned borrowing under the Scotland Act powers as part of the Draft Budget publication.”

116. The Draft Budget states that as “we explained in the draft Budget narrative for 2014-15, we plan to use our new capital borrowing powers to maximise our infrastructure investment in 2015-16.” The Draft Budget does not include any further details of the capital projects to be funded through the new capital borrowing powers. The then Deputy First Minister explained to the Infrastructure and Capital Investment Committee (ICI) on 12 November that—

“The borrowing capacity that we will have will support our overall capital programme, so it is not allocated to individual projects. Members will not be able to look at the budget and see that some of that borrowing is going to a particular hospital, road or school. That capacity is taken into account in the overall assessment of what we are able to invest across our capital programme.”

117. The Government is able to borrow up to £304m in 2015-16 and can do so from the National Loans Fund (NLF), from banks on commercial terms or through issuing bonds. The Government states in the Draft Budget that it is “evaluating these options for borrowing and will in due course take a decision on which method or methods to use based on the prevailing economic conditions.”

118. The Committee asked in its report on Draft Budget 2014-15 whether the Government has discussed the terms of any borrowing from the NLF with HM Treasury. The Government responded that it “would expect to agree terms with HM Treasury at least 6 months ahead of the financial year in which borrowing will be drawn down (i.e. by October 2014 for the 2015-16 financial year). Relevant discussions will therefore be held this year.”

119. The Cabinet Secretary informed the Committee that “we will borrow the money only when we require to do so” and we “will take a prudent approach regarding the moment at which we procure that borrowing in consultation with HM Treasury.” He also stated that the modelling in the draft budget assumes that we borrow from the NLF “with repayments made over 25 years and charged at an interest rate of 5% from 2016-17 onwards.”

120. **The Committee asks that it is provided with details of the terms of borrowing once agreed with HM Treasury.**

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63 [http://www.scottish.parliament.uk/S4_FinanceCommittee/written_agreement.pdf](http://www.scottish.parliament.uk/S4_FinanceCommittee/written_agreement.pdf)
64 [http://www.scottish.gov.uk/Publications/2014/10/2706 page 18](http://www.scottish.gov.uk/Publications/2014/10/2706 page 18)
65 [Infrastructure and Capital Investment Committee, Official Report, 12 November 2014, Col. 21](http://www.scottish.parliament.uk/S4_FinanceCommittee/written_agreement.pdf)
66 Ibid.
Non-Profit Distributing (NPD) Model

121. The Government announced in April 2014 that it is extending the NPD pipeline of investments from £2.5 billion to £3.5 billion. The Draft Budget states that significant progress has been made with the current £2.5 billion pipeline with projects worth almost £750m currently in construction.70

122. The SFT has provided an updated estimate of NPD financed capital investment for 2013-14 to 2015-16 as set out in Table 8 below. The estimates have been revised since last year’s draft budget to take account of the motorways improvement budget being significantly under budget. The cost of these improvements has reduced by £148m.

Table 8

<table>
<thead>
<tr>
<th>£m, cash</th>
<th>Draft Budget 2014-15</th>
<th>Draft Budget 2014-15 adjusted for M8 savings</th>
<th>Draft Budget 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>185</td>
<td>156</td>
<td>177 actual</td>
</tr>
<tr>
<td>2014-15</td>
<td>809</td>
<td>757</td>
<td>614</td>
</tr>
<tr>
<td>2015-16</td>
<td>932</td>
<td>865</td>
<td>954</td>
</tr>
<tr>
<td>Total</td>
<td>1,926</td>
<td>1,778</td>
<td>1,754</td>
</tr>
</tbody>
</table>

123. The SFT points out that “investment delivered in 2013-14 was £177m, which is £21m (13%) higher than our estimate, adjusted for the M8 savings, made this time last year.”71

124. In response to questioning from the Committee as to why the estimates for 2014-15 have reduced from £757m to £614m the SFT responded that there have been some delays to projects in relation to schools and community health projects. An estimated £60m of community health projects and around £80m of schools projects have been rescheduled.

125. The SFT has suggested that there is a “slight inconsistency” in the Government’s borrowing powers. They point out that the estimate for NPD capital investment in 2015-16 is £954m whereas the newly devolved borrowing powers allow the Government to borrow only £304m. Given that the repayments have to be made from the same pot of money “having the flexibility to choose whether to use the NPD model or to borrow seems to be a sensible choice for Scotland to have.”72 The SFT recommended in their submission to the Smith Commission that in “the context of a broader fiscal responsibility framework, the reserved cash limit on Scottish Ministers' annual and total borrowing is removed.”73

http://www.scotland.gov.uk/Publications/2014/10/2706_page_5
http://www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/2014_11_05_Public_papers(2).pdf
126. The Health and Sport (HS) Committee note that no information has been provided in the Draft Budget on the repayments that NHS Boards are incurring via the NPD model and the previous Public Finance Initiative (PFI).

127. The Committee recommends that detailed data on the on-going unitary charges resulting from long-term investment commitments are included in future in Annexe A of the draft budget.

**Long-Term Investment Commitments**

128. The Government has stated that it will limit future commitments arising from revenue funded methods of capital investment and borrowing to a maximum of 5% of its total budget. Annex A of the Draft Budget provides an update which shows committed and planned projects and planned borrowing peaking at just over 4.5% of total DEL in 2019-20. Draft Budget 2014-15 stated that future commitments were expected to peak at just over 4.5% in 2017-18.

129. The FSU briefing on the Draft Budget states that the Government “will spend just over 3.5% of its total DEL budget on such payments in 2015-16, rising to a peak of just over 4.5% in 2019-20. On the basis of the 2015-16 total DEL, this would suggest current repayment commitments of just over £1bn.” However, the FSU advises that it is not possible to quantify precisely the future repayment commitments as the projections have been provided “in chart format and underlying data have not been provided.”

130. Professor John Kay suggested to the Committee that the SFC should have a role in monitoring the level of future investment commitments “so that we do not land future generations with liabilities that we have taken off balance sheet and shoved under the carpet for a period of years.” When asked by the Committee to respond to this suggestion the SFT responded that “there will have to be more transparency around future liabilities” and that monitoring “the long-term commitments that we make is part of what happens if we get extra borrowing powers.”

131. The Committee asks the Government to provide the underlying data behind Figure 1 in Annex A of the Draft Budget.

132. The Committee recommends that the SFC should have a role in monitoring the Government’s long-term investment commitments and an update is provided annually alongside the publication of the draft budget.

**PRIORITISATION**

133. Prioritisation is defined as a coherent and justifiable division between sectors and programmes. The Committee’s former budget adviser suggested that part “of the role of parliamentary scrutiny is to test whether the pledges and commitments

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75 [http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/SB_13-64.pdf](http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/SB_13-64.pdf)

76 [Scottish Parliament Finance Committee, Official Report, 5 November 2014, Col. 9](http://www.scottish.parliament.uk/)

77 [Scottish Parliament Finance Committee, Official Report, 5 November 2014, Col. 51](http://www.scottish.parliament.uk/)
made by any government are then reflected in the choices it makes in the allocation of resource within its budget setting process."78

134. Audit Scotland also emphasised the need for a priority-based approach to budget setting. It pointed 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.”79

135. Audit Scotland stated 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.”80 However, in a survey conducted in 2011 Audit Scotland found that few public bodies have “undertaken a structured approach to budget setting in this way.”81 However, it also acknowledged that the Scottish Government in establishing the National Performance Framework (NPF) has “taken the first step in adopting a priority-based approach to budgeting.”

136. In a recent report on Scotland’s public finances the Auditor General and the Accounts Commission stated that public bodies need to focus more on priorities when making spending decisions and “demonstrate better the links between options chosen and the effect on longer-term outcomes.” Audit Scotland suggested in written evidence that there is some evidence of a greater focus on outcomes at both a local and national level. However, “public bodies need to focus more on priorities to achieve outcomes in setting budgets.”

137. The Committee invited the subject committees and other committees to focus on prioritisation as part of their budget scrutiny including:

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

138. The HS Committee explored with witnesses the issue of prioritisation within the health budget. Their former budget adviser, Dr Andrew Walker, told the Committee—

“What there is not a consensus on is on priorities. Everyone agrees that integration is a good thing. Everyone agrees that public health and prevention are good things. Everyone agrees that more access to new medicines is a good

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78 http://www.scottish.parliament.uk/S4_FinanceCommittee/Final_Budget_Adviser_Report_Scotland_WEBUPDATED.pdf
thing. However, what do you do when you cannot have all those three things? Which one of those is the most important across parties? That is the part of the debate that is still missing. Everybody quite likes hospitals, but everybody quite likes primary care as well. When you cannot have both, which do you choose? I am still waiting for that debate to happen in Scotland.”

139. The Rural Affairs, Climate Change and Environment (RACCE) Committee emphasised that “it is important that trends in funding for each part of the portfolio are examined by the Scottish Government to ensure that there are no serious negative consequences in future years as a result of continuous declining spend in areas such as research, forestry, climate change, or marine and fisheries, at the expense of increases to other portfolios.”

140. The Committee recommends that subject committees continue to focus on prioritisation as part of their budget scrutiny and that this includes the extent to which public bodies within their respective remits are adopting a priority-based budgeting approach.

Broadband

141. One of the main issues to be raised in the workshop groups prior to the Committee’s meeting in Arran was broadband connectivity. This was also one of the main issues raised by the local community when the Committee visited Hawick in 2012. One of the groups reported that the lack of connectivity is “a barrier to the growth potential of small businesses” while it “also has knock-on effects on the delivery of health services and other services that require good connectivity.” Another group noted that “broadband cables are in the process of going in, so there are movements to improve the communications infrastructure and there could be three new masts going on to the island at some stage.”

142. The Cabinet Secretary was asked to respond to the concerns raised in relation to broadband. He emphasised the Government’s £250m commitment to the roll-out of next generation broadband which is being taken forward first in the Highlands and Islands. However, he also highlighted his frustration at the lack of “obligation on the telecommunications companies to get broadband to every locality in the country.”

143. The ICI Committee supports delivering superfast broadband across Scotland especially in rural areas and believes this will have a lasting benefit on greenhouse gas emissions. It is also keen to learn more about the Government’s plans to provide comprehensive digital infrastructure across Scotland.

144. The Committee notes from its visit to Arran this year and to other rural communities in previous years that broadband connectivity is a significant issue. The Committee supports the commitment of the Government to delivering superfast broadband across Scotland and emphasises the need to do so in rural and island communities at the earliest opportunity.

82 Scottish Parliament Health and Sport Committee, Official Report, 28 October 2014, Col 14
83 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 6
84 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 1
85 Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 18
Housing

145. Housing was another issue which was raised widely during the workshops in Arran. In particular, issues around affordability and the need for more social rented housing. The relatively high cost “means that housing is beyond the reach of many people who work on the island.”\(^{86}\) It was also suggested that the “mix of housing is not right” and land banking “does not allow the development of the type of property that communities need.”\(^{87}\)

146. The Draft Budget states that over £390m will be used to deliver 6,000 more affordable homes and that the Government is “on track to meet the 5-year target of delivering 30,000 new affordable homes, including 20,000 houses for social rent, by March 2016.”\(^{88}\) The Cabinet Secretary was asked by the Committee whether given the access to extra capital the Government was in a position to increase this target. He responded that he has “taken every available opportunity to expand housing expenditure” and that, over time, “we have expanded the capital resource that is available for that purpose.”\(^{89}\)

147. The ICI Committee found that while the substantial increase in funding for house building is welcome there is a general consensus that funding needs to be higher still. Shelter estimates the need to build 10,000 affordable homes a year while Homes for Scotland estimates the need to build 22,000 homes a year to address Scotland’s housing needs.

Energy Efficiency

148. The ICI Committee also focused on the potential impact of energy efficient housing on the Government’s climate change targets. It calls on the Government to “continue to fund measures to enhance the future sustainability of all new houses built in Scotland” and “strongly believes that improving the energy efficiency of homes should be a national infrastructure priority.” It recommends that the Government should “re-examine the appropriate level of funding for home energy efficiency improvements in the upcoming spending review.”

Police Reform

149. The Justice Committee is keen to continue monitoring the progress in achieving projected savings as a consequence of police reform. It notes that a key driver of police reform was to deliver substantial savings between 2014-15 and March 2026 and that these were estimated in the Police and Fire Reform (Scotland) Bill FM as being in excess of £1.1 billion. The Chief Constable indicated that he is confident that this overall target will be achieved.

150. The Justice Committee note that neither Association of Chief Police Officers in Scotland (ACPOS) nor Police Scotland signed up to the ambitious savings targets within the FM. The Justice Committee asked the Chief Constable whether he would now support a review of the timetable for savings. He responded that “the path is quite bumpy, and anything that can be done to smooth it would make it easier for us

\(^{86}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 4
\(^{87}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 6
\(^{88}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 8
\(^{89}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 36
to sustain progress.” The Justice Committee note that the Cabinet Secretary for Justice did not commit to a review of the timetable for savings, arguing that “all aspects of our public services are under pressure.”

151. The Committee highlighted a number of concerns in relation to the projected savings and the estimated timescale to deliver them in its report on the FM for the Bill in 2012. The Committee found that it was difficult to assert whether the timetable for achieving the £1.1 billion savings by March 2026 was achievable. It recommended that the lead committee should clarify with the government whether there was any flexibility within the timescale for achieving the projected savings.

152. The Committee supports the recommendation of the Justice Committee that the Government works with the Scottish Police Authority (SPA) and Police Scotland “to ensure the timetabling of savings does not place unnecessary pressures on the delivery of police services.”

Welfare Reform

153. The Draft Budget states that the Government has allocated £81m to mitigate “the most harmful impacts of the UK Government’s reforms” for 2015-16 which is the same in cash terms as 2014-15. £38m has been allocated to the Scottish Welfare Fund which includes £5m for administration costs and £43.2m has been allocated for other welfare reform mitigation. The Government will also roll forward its contribution of £23m towards council tax reduction with an expectation that local government will again contribute £17m.

154. The Welfare Reform (WR) Committee states that it “supports the Government’s priorities in terms of mitigating welfare reforms and the approach that the Government has taken thus far.”

Administration of the Welfare Fund

155. The Committee recommended in its report on the Welfare Funds (Scotland) Bill that “it is vital that administration of the fund is supported by the appropriate resource levels and that growth in demand for assistance be recognised.” This view was supported by the WR Committee in its Stage 1 report on the Bill. They also welcomed the assurance of the Minister that the Government “is happy to reconsider the distribution of administrative funding pending any strong evidence which arises through the benchmarking exercise from COSLA.”

156. The Cabinet Secretary was asked by the Committee about the benchmarking exercise and an administration figure of £8.3m which “appears to be emerging.” He responded that if “it was being argued that the cost was £8m, I would be asking some pretty hard questions about that.” He added that the “obligation on the

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91 [paragraph 78](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/84508.aspx#m)

92 [Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 30](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/84508.aspx#m)

93 [Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 31](http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/84508.aspx#m)
public sector to keep its costs to an absolute minimum in order to maximise value for the recipients is a key consideration.\textsuperscript{94}

157. The Committee asks whether the benchmarking exercise has been completed and if not when it will be and whether the Government has received a request from COSLA for additional funding to administer the welfare fund.

Climate Change Targets

Climate Change Mitigation Measures
158. The Committee recommended in its report on Draft Budget 2014-15 that funding information for climate change mitigation measures should be published alongside publication of the draft budget. The Government responded that it “published in October 2013 a summary of the principal lines within the Scottish Government’s budget and spending plans which support the delivery of measures to reduce greenhouse gas emissions.”\textsuperscript{95}

159. The funding information for climate mitigation measures was not published until nearly five weeks after the Draft Budget which limits the time available for the subject committees to consider this material as part of their draft budget scrutiny. Both the RACCE Committee and the ICI Committee have recommended that this information needs to be made available earlier to allow effective scrutiny.

160. The Committee recommends that prior to summer recess the Government should work with the RACCE Committee to agree timings for the future publication of funding information for climate mitigation measures.

Carbon Assessment
161. Concerns were also raised in relation to the carbon assessment of the Draft Budget. The ICI Committee heard from witnesses that the Government’s approach although innovative when first introduced is no longer considered best practice. Some witnesses suggested that it is not feasible to use this approach to “evaluate the GHG [greenhouse gas] consequences of the programmes, projects and actions funded by the Scottish Government.” The ICI Committee recommended that the Government review the effectiveness of its carbon assessment of the Draft Budget.

162. The Committee supports this recommendation.

Fuel Poverty
163. The Committee asked the Government, in its report on Draft Budget 2014-15, to provide an update on progress in meeting the statutory requirement to eradicate fuel poverty as far as is reasonably practicable by 2016. The Government responded—

“The latest Scottish House Condition Survey highlights that in mid-2012, 27.1% of Scottish Households were fuel poor. This represents a drop of 3.4 per cent compared to October 2011. Improved energy efficiency contributed to two-thirds of the reported decline. The Scottish Government will spend

\textsuperscript{94} Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 31
\textsuperscript{95} http://www.scottish.parliament.uk/S4_FinanceCommittee/Draft_Budget_2014_response.pdf
nearly a quarter of a billion pounds over the period 2013/14 to 2015/16 on further initiatives. This increase in funding is a reflection of the importance the Government places on its target to eradicate Fuel Poverty, as far is reasonably practicable, by 2016."  

164. The Economy, Energy and Tourism (EET) Committee states that it “is concerned that, as seems increasingly likely, the statutory target to eradicate fuel poverty “so far as reasonably practicable” by November 2016 will not be met” and has requested quarterly updates from the Government over the next 24 months on general progress. It also intends to request updates from the UK Government on how reserved policy decisions are impacting on fuel poverty in Scotland.

165. The Committee supports the EET Committee in calling for a full cost analysis of what it will take to achieve the statutory target.

VALUE FOR MONEY

166. Value for money is defined as the extent to which public bodies are spending their allocations well and achieving outcomes. Since 2007 the Government has adopted an outcomes-based approach to its objectives. A new emphasis was also placed on partnership working with public bodies which were now expected to work towards the shared objectives of government.

National Performance Framework (NPF)

167. The whole of the public sector was invited to align their own objectives with the delivery of the Government’s Purpose and National Outcomes as set out in the NPF. As explained by the former Permanent Secretary, Sir John Elvidge, the Government’s Purpose and National Outcomes allows for a consistency in Ministerial strategic direction to NDPBs and Executive agencies. He stated that the introduction of the NPF was part of a wider restructuring of government—

“as a single organisation, working towards a single defined government purpose based on outcomes, and establishing a partnership based on that purpose with the rest of the public sector which is capable of being joined by other parts of civil society.”

168. Public bodies are expected to demonstrate how their aims, objectives, and activities contribute to the National Outcomes. The Government has issued guidance which states that “it is expected that an outcomes based approach will help to highlight how effectively or otherwise the key strategic spending priorities of public bodies…are supporting the achievement of outcomes.”

169. Public body corporate and business plans are expected to meet three central requirements:

All individual public bodies are clearly aligned to the Government’s Purpose through the Outcomes and Purpose Targets in the National Performance Framework;

Public bodies are working collaboratively to achieve the Government’s overarching Purpose through the National Performance Framework;

Public Bodies have fully considered their engagement in Single Outcome Agreements.

170. The Guidance states that this approach “is not an add-on; it is part of the process by which public bodies identify and agree their priorities and budgets.”

171. Audit Scotland recognised in written evidence that the NPF is “a major step forward” and that there is some evidence of its impact in “aligning resources and action across different parts of the public sector in some policy areas.” However, it is less clear in other areas and there is scope for the Government “to demonstrate a more systematic approach to implementing the outcomes approach.” Audit Scotland’s view is that there is an “awful long way to go to realise the potential” of the NPF.  

172. Audit Scotland also point out that there is a tension between the outcomes-based approach which is long-term and the “measurement and system of performance management and information” designed to support it. In particular, many of the indicators within the NPF are not outcome based. Audit Scotland also question how a long-term outcomes approach allows you to know that “you are making the right progress in the things that you are doing and that the money that you are spending is making the difference that you need it to do?”

173. The Improvement Service suggest there is a tension regarding the purpose of the NPF: “is it a performance matrix designed to hold Government and public services collectively to account for their performance or is it a set of routinely updated statements about Scotland...?” They suggest it is best viewed as the latter. This does not make it irrelevant to public services which do have a role in contributing to improving outcomes. However, they “can find no systematic evidence that the organisation and quality of public services is the key or main determinant of the pattern of outcomes in any society.” Economic factors and macro-economic and fiscal policy are much more salient in influencing outcomes.

174. The Improvement Service also argue that the NPF “is not used for national performance management.” They argue it might be more interesting if the government “was clearer about its level of ambition, the timescales and its expectations about how the public service should deliver. That would provide a dynamic in the system.” CIPFA’s view was that an “outcomes-focused...
organisation should be doing some outcome budgeting" which “could be seen as
evidence that an organisation has an outcomes focus.”

175. The Government intends to put an outcomes-based approach on a statutory
basis through the Community Empowerment (Scotland) Bill which was introduced on
11 June 2014. This will place a duty on Ministers to publish and report regularly on
the progress of national outcomes for Scotland although not necessarily in the same
format as the NPF. National Outcomes are defined as outcomes for Scotland
resulting from the work of all public bodies that deliver public services in devolved
areas. All public bodies will be required to “have regard” to the national outcomes in
delivering their devolved functions. Scottish Ministers are ultimately accountable
for the delivery of the National Outcomes.

176. The Committee supports the view of Audit Scotland that the Government
“needs to demonstrate a more systematic approach to implementing its
outcomes approach by clarifying the links between longer-term outcomes, its
priorities and performance measures across all policy areas.”

177. The Committee asks whether the NPF is intended to be used by the
Parliament to scrutinise the performance of Scotland’s public bodies and the
Scottish Government.

178. The Committee invited the subject committees and other committees to focus
on value for money as part of their budget scrutiny including:

- 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;
- 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.

National Indicators

179. Both the ICI Committee and the EET Committee focused on the scrutiny of
national indicators within their respective remits as part of their budget scrutiny. The
ICI Committee focused on three indicators within the NPF and sought to consider

103 Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col. 4
104 http://www.scottish.parliament.uk/S4_Bills/Community%20Empowerment%20(Scotland)%20Bill/b52s
4-introd-en.pdf
105 http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 4
how the draft budget “linked with the inputs, outputs and outcomes related to the three indicators.” The national indicators considered were:

- Reduce Scotland’s carbon footprint;
- Reduce traffic congestion;
- Increase the proportion of journeys to work by public or active travel.  

180. The RACCE Committee also considered the reducing Scotland’s carbon footprint indicator which currently shows that performance is worsening. The carbon footprint was 4% more in 2010 than in 2009 although there is a 12% decrease since the baseline year of 2006. The RACCE Committee states that this is obviously concerning especially when considered with three years of missed climate change targets.

181. The reduce traffic congestion indicator shows that performance is maintaining. The latest figures indicate that “around 9.7% of journeys were perceived to have been delayed due to traffic congestion during 2013, a reduction of 0.2 percentage points from 9.9% in 2012.” The ICI Committee recommends that the Government should “give greater priority at the next spending review to investing in traffic demand reduction and traffic management measures.”

182. The journeys to work indicator shows that performance is maintaining and that the figure has stayed relatively constant over recent years at around 30%. The ICI Committee recommends that in advance of the next spending review the Government should “systematically re-evaluate the level of funding for sustainable and active travel.”

183. The EET Committee focused on the “increase exports” national indicator. The national indicator shows that performance is improving with the latest available figures for 2012 showing a 5.9% increase on 2011 and that exports to the rest of the world “are now 38.4% higher than in 2006.” The EET Committee also produced a logic model to demonstrate how the funding within the draft budget supports the Government’s target to increase exports. It welcomes the bold target to increase the value of Scottish exports by 50% by 2017 and will consider this in more detail in its forthcoming inquiry into internationalising Scottish business.

184. The Committee welcomes this focus on the national indicators and believes there is much more scope for the Parliament and its committees to utilise the data within Scotland Performs to hold the Government and public bodies to account for the delivery of outcomes.

Spending and Outcomes

185. A recurring issue in the Committee’s budget scrutiny is the lack of any linkage between spending and outcomes. The Government, however, has taken the view that “the links between spending and outcomes are clear” but is “happy to consider
suggestions from committees about how the linkages could be strengthened.” This issue was again raised by a number of subject committees.

186. The Education and Culture (EC) Committee considered the link between educational spending and increasing levels of pupil attainment. It noted a report from Audit Scotland which found no direct correlation while COSLA suggested that the link is complicated. The Cabinet Secretary for Education and Lifelong Learning acknowledged that, to some extent inevitably, “the correlation between spending and outcomes is not clear enough in education” and that more work is needed in this area.

187. COSLA stated in its written submission to the EC Committee that it and the Government “are jointly about to commence a significant piece of work that will seek to move the focus away from input measures that have become the focus of education debates and place more emphasis on tracking improved attainment.” The EC Committee welcomes this work but highlighted concerns from COSLA and others that there is no clear link between the NPF and spending.

188. The HS Committee received evidence from some witnesses who suggested that there should be greater transparency in how the Government assesses the potential impact of spending before taking decisions on prioritising particular budget lines. For example, BMA Scotland explained that there “is currently no clarity on how we make decisions on how much to invest and how we prioritise different areas.”

189. The HS Committee states that the draft budget document “still lacks any clear linkage between priorities and spend” and invites the Government to “demonstrate more explicitly the links between budget lines and targets and objectives.” For example, the extent to which the healthcare budget is “incremental” and what elements are assessed on a more zero-based approach.

190. The ICI Committee also highlighted the “lack of a clear narrative in the budget” linking the funding for Government programmes and the reduction of greenhouse gas emissions.

191. The European and External Relations Committee has requested more information from the Government in future budgets on how the principles of prioritisation and value for money inform the Europe and External Affairs budget.

192. The Committee recommends that there is much more emphasis within the budget process and financial scrutiny more generally on examining the impact of spending on outcomes. One approach as demonstrated by the EC Committee above is to scrutinise a specific budget line against a declared policy outcome.

BUDGET PROCESSES

193. 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. 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.

194. The Committee agreed in its report on the 2011 Spending Review that it would monitor the Government’s progress in delivering the decisive shift towards prevention.

**A Decisive Shift to Prevention**

195. The Scottish Government announced a “decisive shift to preventative spending” in its Spending Review 2011 which would “deliver a step change in the way we fund and deliver public services.” Significant funding of £500m was announced for three Change Funds which would “support a transition across public services away from dealing with the symptoms of disadvantage and inequality towards tackling their root causes.” The Scottish Government suggested that this “will help deliver outcomes at reduced cost over the period of the Spending Review and this parliamentary term as a whole.”

196. The primary purpose of the Change Funds is to leverage funding from existing budgets to invest more in anticipatory and preventative approaches. The starting point for the Early Years (EY) Change Fund was to reconsider how the £2.7 billion funding for early years services can be shifted to support prevention and early intervention. Likewise, the Reshaping Care for Older People (RCOP) Change Fund aims to reconsider how the £4.5 billion which is spent on care for older people can be shifted. The goal is not to provide short-term funding for specific projects but to change the way services are delivered and embed those changes on a sustainable basis. As explained by the Government in response to concerns about the short-term nature of the funding, “the principle behind a change fund is that it funds the change and, once the change has been embedded, it should displace other things that are not as good.”

197. The Scotland Performs update which was published alongside the Draft Budget states that “we are starting to see increasingly powerful evidence of improved outcomes, seeded by initial investment from the Change Funds.” In response to questioning from the Committee on the outcome of the £500m investment the Cabinet Secretary responded that the core impact is “through that

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investment, we have taken steps to reduce the long-term demand for public services.”\textsuperscript{114} He cited the effectiveness of the Reducing Reoffending Change Fund as an example of how this works in practice.

198. However, Audit Scotland concluded in a recent report on Community Planning Partnerships (CPPs) that while the “current pace and scale of activity is contributing to an improved focus on prevention” it “is unlikely to deliver the radical change in the design and delivery of public services called for by the Christie Commission.”\textsuperscript{115} In a similar vein the LGR Committee’s view is that “the pace of transformation of service delivery across the public services in Scotland is concerning and...needs to increase rapidly in order to deliver the kind of changes which are required in the coming years.” The LGR Committee also heard evidence from a number of councils about the potential impact of the UK welfare reforms and other budgetary pressures on the shift towards prevention. For example, Renfrewshire Council stated that such pressures make it “incredibly difficult to invest in prevention.”

199. The EC Committee asked in its call for evidence how the draft budget will advance the preventative spending agenda in relation to school spending. They received very little evidence in response to this question and it was not raised in relation to possible solutions to budgetary pressures. The EC Committee has asked the Government to confirm whether, despite budgetary pressures, “schools will still be able to contribute to national policies on early years, preventative spending and child poverty.”

200. The Cabinet Secretary accepts “that preventative spending remains a work in progress, but it is work that the Government and public authorities have to deliver, because it is the key to the sustainability of public services.”\textsuperscript{116} While he is less frustrated than he was two years ago he would still like the pace of reform to be faster.\textsuperscript{117} He pointed out that part of the challenge is that Government does not control all the levers. For example, it cannot direct local authorities and is facing pressure to devolve power to local communities while at the same time being expected to take decisive action to make things happen.

201. As is outlined below in relation to each of the Change Funds and the role of CPPs, there is little evidence of the essential shift in resources taking place to support a preventative approach. However, the Committee continues to be supportive of the Government in seeking a decisive shift to prevention and recognises that some progress has been made especially in relation to integrated working.

**EY Change Fund**

202. The Draft Budget states that £274.25m has been allocated to the EY Change Fund which is slightly higher than the previous figure of £272m. The funding commitments from Health and Local Government, which are largely from realigned budgets, will end in 2014-15. The Government will provide £8.5m of transitional funding in 2015-16.


\textsuperscript{115} http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 5


203. The EY Taskforce states that the Fund is intended to “shift resource to where it makes the most difference, by supporting prevention and early intervention.” The fund is “delivering a range of activity on family centres and family support, child and maternal health, play, childcare and early education.”

204. The Government has indicated that the EY Change Fund has “been successful in leveraging in additional resources to drive the move to prevention and early intervention.” The Committee asked the Government to provide evidence of this in its report on Draft Budget 2014-15 to which they responded—

“In June 2013, Community Planning Partnerships (CPPs) provided their annual returns detailing their Change Fund activity and spend. These returns provide us with strong evidence of a move to prevention and early intervention. The returns also indicate that significantly more is spent on the early years by Health Boards and local government than is captured by the Change Fund. The additional spend is estimated to be around 10 times the £272.5 million minimum agreed contributions invested in the Early Years Change Fund.”

205. It is not clear how the Change Fund has been successful in leveraging in additional resources when the estimate of £2.7 billion provided in the CPP returns is essentially the same figure which the EY Taskforce estimated in March 2012 as the total spend on early years services.

206. The Taskforce recommended that CPPs should use the Change Fund to reconsider how the £2.7 billion is invested “with a view to developing a clear strategy to make the shift in investing more upstream in anticipatory and preventative approaches that we know work and that help to reduce the demand for more formal, higher intensity care in the future.”

207. The Taskforce has recognised that the shift to investment in anticipatory and preventative approaches “will require bold decisions around disinvestment at both a local and national level” and that the “decisions to disinvest will be difficult, but if we are to make the shift we need, those decisions are crucial.” Likewise, the Government has stated there “is a desire to see a shift in investment in early years from crisis management to early intervention and prevention. We all know that the pressures on budgets are going to intensify and that hard decisions are inevitable.”

208. The Committee has previously raised concerns about the lack of progress of shifting resources in this way and asked the Government in its report on Draft Budget 2014-15 to provide some examples. No examples were provided in the

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119 http://www.scotland.gov.uk/Publications/2014/03/5304/5
125 http://www.scotland.gov.uk/Publications/2011/01/13114328/0
Government’s response. The Minister for Children and Young People subsequently explained to the Committee: “The question of disinvestment is a good one and is probably much more tricky to answer because we have not had any specific examples, from the change fund returns, of that happening.” However, the Government has also stated that “it does not consider disinvestment alone to be a key indicator for prevention.”

209. The Committee again raised the issue of disinvestment in its recent evidence session with CPPs. While the CPPs expressed a commitment to disinvest in some areas to invest in early intervention little evidence was provided of this actually happening. NHS Grampian informed the Committee that they “are in a transition period in which it is hard to say whether we have truly disinvested from activities.” The HS Committee also recently asked Government officials to provide examples of resources being shifted to support early intervention. They responded that it “is still too early to point to any huge shifts.” When it was pointed out that one of the aims of the Change Funds is to shift the balance of public services towards early intervention and prevention by 2016 the officials responded that they expected to have evidence of progress when the Government receives the latest Change Fund returns from CPPs.

210. The Draft Budget states that the Change Fund “has been a catalyst for change, helping to create the environment for moving to integrated early intervention and prevention” which is “having an impact on improving processes, systems and ways of working at the local level, which can result in savings, for example, in staff time.”

211. However, the Improvement Service’s, National Benchmarking Overview Report 2014 states that between 2010-11 and 2012-13 there has been an average 11.2% real terms cut in pre-school educational provision for children across Scotland’s 32 councils. The report also points out that there is a substantial variation between councils with spending per place ranging from £1966 to £5062. The report states that there “is no systematic connection with the different scale, population or levels of deprivation for different councils. The variation seems more likely to reflect specific local choices about the nature and quality of the service provided.”

212. The Committee remains concerned that despite an investment of £274.25m in the EY Change Fund little evidence has been provided of any shift in the £2.7 billion funding for early years services towards prevention and early intervention. Indeed, the average 11.2% real terms cut to nursery school places between 2010-11 and 2012-13 and the wide variation in spending per place suggests the opposite.

213. The Committee invites the Government to set out its criteria for judging the effectiveness of the EY Change Fund including what percentage of the £2.7

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128 Scottish Parliament Finance Committee, Official Report, 8 October 2014, Col. 34
129 Scottish Parliament Health and Sport Committee, Official Report, 6 May 2014, Col. 5330
130 http://www.scotland.gov.uk/Publications/2014/10/2706/0_p171
billion it expects to see shifted by the end of 2015-16 and what analysis it intends to publish to assess the impact of the fund.

214. The Committee also asks what further action the Government will take if the EY Change Fund fails to deliver the expected transformational and systems change and a decisive shift towards prevention.

215. The Committee will invite SPICe to provide an analysis of the EY Change Fund returns when they are published in the New Year and will then take evidence from the Minister for Children and Young People.

Early Years Indicators
216. The Committee has previously questioned the lack of measurable outcomes in relation to the Early Years. This point was raised by the Improvement Service which stated that given “the amount of investment that we are making in the early years, it is utterly puzzling that we wait until children are 16 to discover whether that investment is paying off.” The Improvement Service also point out that there are currently “no systematic and consistent measures deployed by all 32 councils for understanding children’s development as they progress through the pre-school setting.” They are seeking to develop “a complimentary set of indicators that will allow councils to compare on a standardised basis how children are progressing in the pre-school years in order that good practices can be identified and fully shared across councils and pre-school settings.”

217. A similar point was raised by the Social Mobility and Child Poverty Commission in relation to the Scottish Government’s new child poverty strategy. The strategy includes a new outcomes framework that helps “shift the focus of policy from processes and inputs towards the impact that the policy and its delivery has on people and communities.” While the Commission views this approach as being impressive overall it questioned why only one of the 33 indicators relates to student results and why there is no measurement of early childhood development, school readiness or any measurement of how poor children do on educational attainment. One of the key findings of the Commission is that in Scotland by “age 5, there is a 13 month gap in vocabulary and a 10 month gap in problem solving ability between children from low and high income backgrounds.”

218. The Committee asks how the Government is measuring the success of the EY Change Fund and the shift towards early intervention and prevention without measuring the impact on early childhood development and school readiness.

219. The Committee recommends that the NPF includes at least one indicator which measures pre-school development.

132 Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col. 29
135 http://www.scotland.gov.uk/Publications/2014/03/5304/4
Reshaping Care for Older People (RCOP) Change Fund

220. The Government states that the RCOP Change Fund was “introduced to improve the way that public, private and third sector organisations work in partnership to deliver health and social care services” and is “helping to reduce hospital admissions, aiding discharge after a crisis and promoting the concepts of community capacity building and co-production of services between providers and users.”\(^{138}\) £300m has been allocated to the RCOP Change Fund between 2011-12 and 2014-15.

221. One of the commitments of the RCOP programme is to double the proportion of the total health and social care budget for older people that is spent on care at home, from around 6.7% in 2010-11, to at least 13.5% by 2020-21, with commensurate reductions elsewhere.\(^{139}\) However, the Government has subsequently confirmed to the Public Audit Committee that the baseline figure for 2010-11 “is in the order of 9%.”\(^{140}\) Audit Scotland noted in a recent audit of the RCOP programme that the figure was 9.2% in 2010-11 and that this reduced slightly to 8.7% in 2011-12.\(^{141}\)

222. The RCOP Change Fund was introduced as part of the RCOP programme to “stimulate shifts in the totality of the budget from institutional care to home and community based care and enable subsequent de-commissioning of acute sector provision.”\(^{142}\) However, Audit Scotland recently carried out an external audit of the RCOP programme and found that as yet there is no evidence that the Change Fund “has stimulated organisations to spend more on community-based services.”\(^{143}\)

223. Audit Scotland recognise that one “of the most significant challenges in RCOP is for organisations to identify areas for disinvestment.” While this is difficult it “is central to transforming how services are delivered.”\(^{144}\) However, over the last nine years “the percentage of money that the NHS and councils spent on community-based services for all age groups changed only slightly.”\(^{145}\) One of the key messages of the external audit is that:

“More needs to be done to target resources on preventing or delaying ill health and on supporting people to stay at home. There is little evidence of progress in moving money to community-based services and NHS Boards and councils need clear plans setting out how this will happen in practice.”\(^{146}\)

224. Audit Scotland also found that while the fund had led to the development of a number of small scale initiatives, these are “not always evidence based or monitored on an ongoing basis and it is not clear how successful projects will be sustained and

\(^{138}\) http://www.scotland.gov.uk/Publications/2014/10/2706_page_170

\(^{139}\) http://www.scotland.gov.uk/Resource/0039/00398295.pdf paragraph 3.10

\(^{140}\) http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/78401.aspx paragraph 64

\(^{141}\) http://www.audit-scotland.gov.uk/docs/central/2014/nr_140206_reshaping_care.pdf page 28


\(^{143}\) http://www.audit-scotland.gov.uk/docs/central/2014/nr_140206_reshaping_care.pdf page 28

\(^{144}\) http://www.audit-scotland.gov.uk/docs/central/2014/nr_140206_reshaping_care.pdf page 28


\(^{146}\) http://www.audit-scotland.gov.uk/docs/central/2014/nr_140206_reshaping_care.pdf page 7
Audit Scotland recommended that the Government should work with NHS Boards, councils and their partners to—

“Ensure that for the remainder of the Change Fund, it is clear how the money has been spent, the impact initiatives have had on older people and other services, how much initiatives have cost and how successful initiatives will be spread.”

225. The HS Committee refers to Audit Scotland’s report, *NHS in Scotland 2013-14*, which also highlighted concerns in relation to the shift from hospital care to social care—

“Progress has been slow and more significant change is needed to move care into the community. The NHS will not be able to continue to provide services in the way it currently does. Change on this scale will be challenging at the same time as NHS Boards are expected to meet demanding targets for hospital care and when budgets are tightening.”

226. The North Ayrshire Health and Social Care Partnership told the EO Committee that the RCOP Change Fund has not “managed to influence the main stream of funding as much as it should have done.”

227. The Committee notes with concern the findings of Audit Scotland that there is little evidence of progress in moving money to community-based services and asks what action the Government has taken in response to the audit of the RCOP programme.

228. The Committee recommends that each Integration Joint Board sets out a clear plan setting out how money will be moved to community-based services.

229. The Committee invites the Government to set out its criteria for judging the effectiveness of the RCOP Change Fund and what analysis it intends to publish to assess the impact of the fund.

**Integrated Care Fund**

230. The RCOP Change Fund ends in 2014-15 and the Government has introduced a new Integrated Care Fund. This was announced in last year’s draft budget with funding of £120m for 2015-16. This has now been increased to £173.5m with the amount being funded centrally increasing from £20m to £73.5m. £100m will also be allocated to integrated partnerships via NHS Boards. The Cabinet Secretary for Health, Wellbeing and Sport explained to the HS Committee: “I make it absolutely clear that the integration fund is not a successor fund to the change fund. The
integration fund is specifically about helping to manage and oil the wheels of the transition...”\(^{152}\)

231. The Joint Improvement Team explained to the Committee in January 2014: “It is important that that is not seen as year 5 of the change fund. It will build on the change fund but will be more widely applicable.”\(^{153}\) The fund will “support the development and delivery of new models of care in local areas, looking at innovative ways of supporting frontline professionals dealing with the challenges of multimorbidity, an ageing population, poverty and rurality.”\(^{154}\)

232. The Government’s guidance for local partners on the Integrated Care Fund recognises that the RCOP programme has “not yet been able to achieve a shift in resources away from institutional care.” The guidance emphasises that it is important that partnerships “continue to make progress” with RCOP “within the context of emerging integrated health and social care arrangements.” The funding is available for one year and “should be used to test and drive a wider set of innovative and preventative approaches in order to reduce future demand.” The availability of further funding after 2016 will “depend on the progress made and the outcome of the next Comprehensive Spending Review.”\(^{155}\)

233. The HS Committee raises concerns in relation to the level of funding allocated to the Integrated Care Fund. The Government has announced that £40m of the £73.5m has now been allocated to a new primary care development fund to support new ways of delivering local GP and primary care services. £5m has also been allocated to mental health services in 2015-16. The HS Committee has questioned whether the funding is sufficient to meet the demands on integrated working arising from the Public Bodies (Joint Working) (Scotland) Act 2013 “particularly in the light of some of the available funding being diverted for other purposes.”

234. The Local Government and Regeneration (LGR) Committee also examined the integration of health and social care services and emphasised that local government is “now a key part of the health system.” Public spending on meeting health outcomes should reflect this while community planning provides the basis for joint delivery.

235. The Equal Opportunities (EO) Committee pointed out that it is not clear whether the £40m funding for the primary care development fund “will be targeted at integration initiatives specifically” and “whether this is a one-off or recurring funding stream.” It has asked the Government for clarification on the targeting of this funding.

236. The EO Committee emphasised the role of the third sector in shifting the balancing of care and recommends that the Government provides information on this role in its evaluation of the new integrated partnerships.

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\(^{152}\) [Scottish Parliament Health and Sport Committee, Official Report, 4 November 2014,Col 154](http://www.scotland.gov.uk/Publications/2014/10/2706 page 29)


237. The Cabinet Secretary explained to the Committee that the “Government’s focus on health and social care integration is crucial – particularly in the next couple of years, which will be crucial in making sure that a discernible shift in the balance of care is delivered – because it is fundamental to guaranteeing the sustainability of our public services.”\(^\text{156}\) He also confirmed that £173.5m had been allocated “to directly support the integration of health and social care.”\(^\text{157}\)

238. The Committee asks what lessons have been learned from the RCOP Change Fund in informing how the Integrated Care Fund will operate.

239. The Committee asks whether guidance has been published for local partners on the new primary care development fund and whether all of the £40m will be allocated to directly support the integration of health and support care.

240. The Committee also asks the Government to explain its criteria for allocating the £173.5m from the Integration Fund and how it will assess its effectiveness.

Reducing Reoffending (RR) Change Fund

241. The RR Change Fund was established to grant funding to newly created Public Social Partnerships (PSPs) between the third sector and public sector organisations in delivering mentoring services to offenders. The Change Fund totals £10m with the Government contributing £7.5m, the Robertson Trust, £2m and the Scottish Prison Service, £500,000.

242. The Draft Budget states that the Change Fund “will be extended for PSPs delivering offending mentoring for up to another two years (2015-17).”\(^\text{158}\) During the three year period 2012-13 to 2014-15 the RRCF received £10m of funding, comprising (a) Scottish Government funding of £7.5m in line with its original commitment; (b) a further £2m of Scottish Government funding made available as a result of underspends in other areas of Community Justice; and (c) Scottish Prison Service funding of £0.5m. The additional £2m of Scottish Government funding replaces the planned use of Robertson Trust money during this period. The Robertson Trust will instead provide its contribution during 2015-16 to 2016-17.

243. Government officials have advised that up to £3.375m per annum will be available in 2015-16 and 2016-17. The final expenditure may be less, depending on what the public social partnerships actually require and whether there is an opportunity for any of them to transfer to other sustainable funding before the end of 2016-17.

244. The Justice Committee has previously raised concerns in relation to the sustainability of the mentoring services once the two-year funding ends. The Government stated in response to the Committee’s report on Draft Budget 2014-15 that a “sub-group of the Funding project in the Reducing Reoffending Programme has been established which will assist the PSP partnerships in their efforts to

\(^{156}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 34

\(^{157}\) Scottish Parliament Finance Committee, Official Report, 1 December 2014, Col. 10

\(^{158}\) http://www.scotland.gov.uk/Publications/2014/10/2706 page 172
securing future funding.” However, given the challenges the partnerships faced in securing other sustainable funding the Change Fund has been extended to support existing projects for longer.

245. The Committee welcomes the extension of the RR Change Fund for existing projects and asks what support they will be given to secure sustainable funding.

Community Planning Partnerships (CPPs)

246. The Government stated in its response to the Committee’s report on Draft Budget 2014-15 that CPPs “will play a decisive role” in the shift to prevention.  

247. In 2012 the Government carried out a review of community planning as part of its response to the Christie Commission which had found “serious shortcomings in the capacity of public services as presently organised to deliver better outcomes.” The Government subsequently published a Statement of Ambition in partnership with COSLA which aims to put community planning at the heart of an outcomes based approach to public services in Scotland. It stated that—

“Effective community planning arrangements will be at the core of public service reform. They will drive the pace of service integration, increase the focus on prevention and secure continuous improvement in public service delivery, in order to achieve better outcomes for communities.”

248. One of the aims of the Community Empowerment (Scotland) Bill is, accordingly, to support “an increase in the pace and scale of Public Service Reform by cementing the focus on achieving outcomes and improving the process of community planning.” The Government recognises in response to the Christie Commission that “public sector organisations must work more effectively together and in partnership with communities, with a focus on achieving outcomes.” The Bill includes a provision to provide a statutory basis for CPPs and “places duties on them around the planning and achievement of local outcomes.”

249. Given the increasing role of community planning in improving public services the Government invited the Accounts Commission and the Auditor General to carry out external audits of CPPs. Audit Scotland has subsequently carried out a number of audits of CPPs and have published two overview reports. The first was published in March 2013 and Audit Scotland found that “ten years after community planning was given a statutory basis, CPPs are not able to show that they have had a
significant impact in delivering improved outcomes in Scotland.” 165 Audit Scotland found widespread shortcomings in the performance of CPPs and community planning has had little influence over how public money is used. However, the “need for change has been recognised and there is now a renewed focus on community planning nationally and locally.” 166

250. The second overview report was published in November 2014. Key messages included: “Although aspects of community planning are improving, leadership, scrutiny and challenge are still inconsistent. There is little evidence that CPP boards are yet demonstrating the levels of leadership and challenge set out in the Statement of Ambition.” 167

251. The Committee took evidence from three CPPs at its meeting on 8 October and it was clear that progress is slow and they are largely still at the planning and development stage. For example, Glasgow CPP stated that a “hard look has been taken at our structures” 168 while North Ayrshire CPP stated the “next iteration when we produce the strategic plan for the integration partnership, will begin to move to the mainstream.” 169 Moray CPP explained “this work takes time, but we are moving in the right direction” 170 and “the process is not there yet, but trust and cohesion are starting to be demonstrated.” 171 Glasgow CPP recognised “progress is slow, but we are firm believers in the process” and North Ayrshire CPP “are now on the precipice of the next step.” 172

252. The LGR Committee also expressed concern in relation to the progress of community planning. “Over a decade after the introduction of community planning, it is clear the close working relationship between councils and CPP partners still has a long way to go in terms of truly joined-up long term planning which is aligned to the needs of preventative spending.”

253. The Committee has taken evidence from CPPs over a number of years and is concerned about the lack of progress being made in driving public sector reform and the decisive shift to prevention. The focus continues to be inward on issues such as internal structures and organisational matters with little mention of any impact on outcomes.

254. The Committee will invite Audit Scotland to give evidence on its second overview report on CPPs and will explore with it what action can be taken to accelerate progress.

Single Outcome Agreements

255. The Government’s response to the Committee’s report on Draft Budget 2014-15 also stated that the new Single Outcome Agreements (SOAs) will have a particular focus on prevention. The Guidance states that “new SOAs should

165 http://www.audit-scotland.gov.uk/docs/central/2013/nr_130320_improving_cpp.pdf paragraph 9
166 http://www.audit-scotland.gov.uk/docs/central/2013/nr_130320_improving_cpp.pdf paragraph 11
167 http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 4
168 Scottish Parliament Finance Committee, Official Report, 8 October 2014, OR Col. 25
169 Scottish Parliament Finance Committee, Official Report, 8 October 2014, OR Col. 30
170 Scottish Parliament Finance Committee, Official Report, 8 October 2014, OR Col. 37
171 Scottish Parliament Finance Committee, Official Report, 8 October 2014, OR Col.43
172 Scottish Parliament Finance Committee, Official Report, 8 October 2014, OR Col.40
promote early intervention and preventative approaches in reducing outcome inequalities."\textsuperscript{173} The National Community Planning Group suggests that “the pace and scope of such approaches must increase sharply if we are to achieve improvements in local outcomes and financial sustainability.”\textsuperscript{174}

256. Each SOA is required to include a specific plan for prevention including how the CPP intends to make a decisive shift to prevention and the level of resources being allocated. CPPs are also required to provide evidence of progress in making a decisive shift to prevention.

257. While Audit Scotland recognised that CPPs have “started to collate existing preventative activity in plans linked to their SOA” they “now need to identify how they can move funding and staff towards more preventative approaches, and start implementing this.”\textsuperscript{175} At the same time it is recognised that moving resources towards preventative activity while meeting current demand will be challenging. “There is a risk that the current approaches being adopted, and the pace at which they are moving, will not be sufficient to significantly ease the demand pressures partners will increasingly face.”\textsuperscript{176}

258. The Committee agrees with Audit Scotland that CPPs should “start to align and shift partners’ resources toward agreed prevention and improvement policies” and expects to see significant progress in this area over the next year.

Accountability

259. The \textit{Statement of Ambition} states that the “unique responsibilities of CPPs require strong governance and accountability arrangements” and political oversight is “key to accountability.”\textsuperscript{177} Formal accountability is expected to be exercised by councillors in relation to local authorities and Ministers in relation to national public bodies. The \textit{Statement of Ambition} states that the Scottish Government “must hold national agencies to account for their contribution to local community planning and SOAs.”\textsuperscript{178}

260. Audit Scotland has questioned the robustness of the accountability framework which exists for CPPs. The weakness of governance and accountability arrangements means that partner organisations have not been routinely or robustly held to account for their performance as a member of the CPP. Audit Scotland recommended in its first overview report on CPPs that resolving “this accountability deficit is one of the keys to improving how CPPs perform and ensuring better outcomes for local communities.”\textsuperscript{179} However, the second overview report found that the Government is “not yet consistently holding partners in central government

\textsuperscript{173} \url{http://www.scotland.gov.uk/Topics/Government/local-government/CP/SOA2012/SOA2012}
\textsuperscript{174} \url{http://www.scotland.gov.uk/Topics/Government/local-government/CP/SOA2012/SOA2012}
\textsuperscript{175} \url{http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 31}
\textsuperscript{176} \url{http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 31}
\textsuperscript{177} \url{http://www.scotland.gov.uk/Topics/Government/local-government/CP/soa}
\textsuperscript{178} \url{http://www.scotland.gov.uk/Topics/Government/local-government/CP/soa}
\textsuperscript{179} \url{http://www.audit-scotland.gov.uk/docs/central/2013/nr_130320_improving_cpp.pdf}
bodies or the NHS to account for their performance in a community planning context.”

261. The Committee recommends that there needs to be much greater accountability of the role of CPPs and individual partners in delivering the decisive shift towards prevention. This is a role for the Parliament as much as the Government. The Committee will invite subject committees to robustly scrutinise the contribution of public bodies within their respective remits to CPPs, public sector reform and, in particular, the shift towards prevention. The Committee will ask subject committees to report back on their findings either before or as part of next year’s draft budget scrutiny.

262. The Committee will also ask SPICe to provide an analysis of the next set of CPP annual reports in relation to progress in delivering a preventative approach.

263. The Committee will also take evidence from What Works Scotland in relation to their role in “improving the way local areas in Scotland use evidence to improve the way local areas in Scotland use evidence to make decisions about public service development and reform.”

Public Service Reform

264. The Draft Budget states that community planning “has a critical role to play in making public service reform happen at the local level.” However, Audit Scotland found that the links between community planning and the public service reform programme are not clear. For example engagement with national programmes such as the Early Years Collaborative remains underdeveloped and the Government’s guidance “is not clear enough about the specific role that CPPs should play in the implementation of public service reforms.”

265. CPPs are also unsure about the role they should have in health and social care integration and national policies relating to this programme make little reference to the role of community planning. Audit Scotland found that “activity to integrate health and social care services has been happening largely in parallel to community planning.”

266. The Committee recommends that the Government provides clearer guidance to CPPs on their role in relation to public service reform programmes such as the Early Years Collaborative and the integration of health and social care including how this relates to SOAs and prevention plans.

Reporting on progress

267. The Statement of Ambition states that “the development of transparent and accessible public reporting, together with an appropriate level of external scrutiny, is key to providing assurance about CPP effectiveness and SOA delivery.” Partners

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181 http://whatworksscotland.ac.uk/
182 http://www.scotland.gov.uk/Publications/2014/10/2706/0 page 10
183 http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 16
184 http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf page 16
185 http://www.scotland.gov.uk/Topics/Government/local-government/CP/soa
and partnerships are expected to ensure effective self-evaluation of their performance and transparent and accessible public reporting which should include a publicly available annual report. CPP Boards are required to report on progress and performance “in ways that are clear to local elected members, CPP partners, local communities, the Scottish Government and audit and inspection bodies.” 186 The Community Empowerment (Scotland) Bill includes provision for each CPP to publish a local outcomes improvement plan and an annual report on the progress made in improving local outcomes.

268. **The Committee recommends that CPP annual reports provide details of the progress being made in shifting resources to a preventative approach and the impact which this is having on outcomes and reducing demand.**

**SCOTTISH PARLIAMENTARY CORPORATE BODY**

269. The Committee is required to consider the budget proposal from the Scottish Parliamentary Corporate Body (SPCB). The SPCB has a prior call on the Scottish Consolidated Fund, meaning that its budget is allocated before the Scottish Government makes any other allocations. The SPCB budget provides for the costs of the Parliament and also the costs of the Ombudsman and commissioners which fall within the definition of SPCB-supported bodies.

270. The SPCB budget was submitted to the Committee on 20 November 2014 and the Committee took oral evidence on the budget at its meeting on 26 November 2014.

271. The SPCB has identified a total budget requirement of £89.8 million for 2015-16. This represents a cash terms increase of £1.1 million on the budget for 2014-15.187 The Presiding Officer has set out background to the budget-setting approach taken by the SPCB, stating that—

- “...our overall budget proposal for 2015-16 will deliver cumulative savings of 11.1% in real terms over the five years since the 2010-11 baseline and incorporates a real terms reduction of 14.0% in the directly controllable costs of the Scottish Parliament.”188

272. The staff related costs budget shows an increase of £70,000, or 8.8%, against the budget for 2014-15 with training in new systems and job related skills and costs to support engagement activities outwith Edinburgh being highlighted as elements within this budget. In relation to job related training, the SPCB explained that this involved development of web and social media skills. In relation to engagement activities outwith Edinburgh, Liam McArthur MSP stated that—

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187 The total budget for 2014-15 included a sum of £2.06 million in relation to Electoral Commission costs for public awareness activity and guidance around the referendum on 18 September. This sum is not included in the assessment of the year on year change.

188 Letter from the Presiding Officer, pages 2-3
“...we need to ensure that we are giving effect to the underlying principle that we are accessible and provide opportunities for people to engage directly with parliamentarians and Parliament officials.”

273. The Committee welcomes the commitment from the SPCB to invest in the Parliament’s engagement activity, both in terms of the opportunities provided by social media and through visits and external meetings around Scotland.

274. The Committee questioned the SPCB regarding the possibility of introducing a central contract for the provision of utilities for Members’ local offices. The Parliament’s chief executive responded that “the objective is well worth pursuing, and I have a team working on it.”

275. The Committee welcomes the work the SPCB is carrying out on this issue and asks to be kept updated on progress.

276. The Committee has previously asked the SPCB about opportunities to reduce costs through co-location of the Commissioners and Ombudsman and asked the SPCB for an update on progress towards achieving that outcome. In response, Liam McArthur MSP stated that—

“Co-location remains an objective of the corporate body to achieve where we can. Since we last spoke, Scotland’s Commissioner for Children and Young People has moved to a larger but less expensive property in Edinburgh that have scope for accommodating others, and we have reached an agreements with the commissioner on that. The issue is constantly under review, but there are no opportunities to achieve that on the immediate horizon.”

277. The Committee welcomes that co-location remains an objective of the SPCB. The Committee notes that there is spare capacity in the office now occupied by the Commissioner for Children and Young People. The Committee asks the SPCB to confirm whether this space would be used to accommodate any expansion in staff numbers of the officeholders, for example, in connection with the new powers of the Commissioner for Children and Young People under the Children and Young People (Scotland) Act 2014. The Committee also asks for clarification as to whether any new staff recruited to support the anticipated role of the Scottish Public Services Ombudsman (SPSO) under the Welfare Funds (Scotland) Bill would be located at the existing SPSO office or would be co-located with the Commissioner for Children and Young People.

278. The SPCB budget for revenue projects includes £400,000 for replacing the lighting in the chamber. The Committee asked the SPCB to comment in what would be involved in this work. In response, the SPCB outlined that replacement of the lighting was in keeping with work on other parts of the building where LED lighting has been installed “partly because of environmental objectives…and partly because of the need to look at making savings where we can.” The SPCB indicated that it

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190 Scottish Parliament Finance Committee, Official Report, 26 November 2014, Col 8
would be able to provide some figures on the savings to be realised through the use of more energy efficient LED lighting.

279. The Committee welcomes initiatives that will have a positive environmental impact and result in savings. The Committee asks the SPCB to provide details of the anticipated savings from the replacement of the chamber lighting. The Committee also requests that information about potential savings from any similar initiatives is included in future budget submissions.

280. The Committee considers that the four principles of financial scrutiny discussed throughout this report should be applied to all public bodies. In future years, the Committee intends to take an approach to scrutiny of the SPCB that reflects these principles.

AUDIT SCOTLAND

281. Audit Scotland is required to prepare, for each financial year, proposals for its use of resources and expenditure. It is the responsibility of the Scottish Commission for Public Audit (SCPA) to examine these proposals and report on them to the Parliament. 192

282. Audit Scotland submitted its budget proposal for 2015-16 and associated fee strategy on 19 September 2014. The SCPA took evidence from Audit Scotland on 30 October 2014 and, in line with the written agreement between the SCPA and the Committee, provided its report on the proposals to the Committee.

283. Audit Scotland’s funding is provided in two ways, direct funding from the Scottish Consolidated Fund and from fees charged to audited bodies. The budget proposal sets out a funding requirement for 2015-16 of £7,968,000. This comprises a resource requirement of £6,438,000 and capital funding of £1,530,000. The resource requirement is an increase of £37,000 over the current budget and is stated as being “directly attributable to the creation of Revenue Scotland and Food Standards Scotland.” 193 The capital funding is an increase of £1,330,000 on the budget for 2014-15 and is being sought to invest in office relocation.

284. The SCPA questioned Audit Scotland about the increased resource request attributed to Revenue Scotland and Food Standards Scotland. Beyond the £37,000 request for the 2015-16 budget, Audit Scotland has indicated that from 2016-17, the cost of auditing these bodies is expected to be £110,000 against a combined spend of £20 million per year. The SCPA queried whether this was a high audit cost.

285. Audit Scotland explained that the cost of audit amounted to more than a simple audit of a body’s financial statements. In relation to Revenue Scotland, which will account for £80,000, the audit cost was explained as also involving the audit of the collection of devolved taxes. The SCPA noted this explanation and has also asked for clarification as to whether any additional audit costs are expected to fall on Registers of Scotland or SEPA given their roles in administration of the devolved taxes.

192 The requirements on both Audit Scotland and the Scottish Commission for Public Audit are set out in the Public Finance and Accountability (Scotland) Act 2000.
286. In last year’s Draft Budget a future capital funding requirement in relation to the relocation of Audit Scotland in Edinburgh was flagged up. The capital funding requested by Audit Scotland to enable relocation from its current Edinburgh offices to a single location is £1,330,000. As a result of this relocation, Audit Scotland’s budget anticipates savings of £2 million over ten years. The SCPA has made clear that it expects Audit Scotland to achieve the best possible value for money in negotiations for its new office and has asked for an update at the earliest opportunity of the outcome of these negotiations, including an update on the anticipated savings.

287. The SCPA’s report also welcomes Audit Scotland’s review of fee-setting arrangements. In doing so, the SCPA emphasised the importance of Audit Scotland being able to provide assurance that the fee-setting arrangements enable the provision of high quality and best value audit of Scotland’s public bodies.

288. The Committee notes the report from the SCPA.

289. The Committee invites the SCPA to consider incorporating the four principles of financial scrutiny into its consideration of Audit Scotland’s budget proposals in future years.

CONCLUSION

290. The Committee welcomes the work of the subject committees and other committees in focusing on prioritisation and value for money in carrying out their budget scrutiny. The Committee believes that there is real scope for improving the effectiveness of budget scrutiny and financial scrutiny more generally by continuing to develop this approach.

291. The Committee considered the issue of affordability and whether revenue and expenditure are appropriately balanced. The Committee is concerned that uncertainty remains in relation to the totality of the Government’s budget due to the on-going negotiations on the block grant adjustment and is strongly of the view that this needs to be resolved prior to the Parliament agreeing the Budget Bill at Stage 3.

292. The Committee invited the subject committees and other committees to examine prioritisation within the draft budget. In particular, they were asked to look at whether there is a coherent and justifiable division between sectors and programmes. The Committee recommends that this should be an on-going aspect of budget scrutiny and wider financial scrutiny by the committees and includes scrutiny of the extent to which Scotland’s public bodies are adopting a priority-based budgeting approach.

293. The Committee also invited the subject committees and other committees to examine value for money and the extent to which public bodies are spending their allocations well and achieving outcomes. The Committee welcomes the approach taken by some committees in focusing on the national indicators within their respective remits. The Committee believes that there is much more scope to use the data within Scotland Performs to hold the Government and public bodies to account for the delivery of outcomes. The Committee is also currently carrying out a pilot exercise in relation to the post-legislative scrutiny of FMs and hopes to develop this approach in the current parliamentary session.
294. Finally, the Committee looked at **budget processes** and the integration between public service planning and performance and financial management. In particular, the Committee continued to examine the Government’s progress in delivering the decisive shift towards prevention. The Committee recommends that there needs to be much greater accountability of the role of CPPs and public bodies in delivering this shift and will invite the subject committees to examine this as part of future budget scrutiny.
ANNEXE A: INDEX OF ORAL EVIDENCE SESSIONS AND RECORD OF DECISIONS IN PRIVATE

Please note that all oral evidence and associated written evidence is published electronically only and can be accessed via the Finance Committee’s webpages at: http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29822.aspx

24th Meeting, 2014 (Session 4) Wednesday 01 October 2014

Colin Mair, Chief Executive, Improvement Service; Gareth Davies, Policy and Technical Officer, Chartered Institute of Public Finance and Accountancy; Fraser McKinlay, Director of Performance Audit and Best Value, Audit Scotland.

25th Meeting, 2014 (Session 4) Wednesday 08 October 2014

Lynn Brown, Deputy Chief Executive and Executive Director of Finance, and Jim Gray, Head of Democratic Services, Glasgow City Council; Laura Friel, Executive Director of Finance and Corporate Support, North Ayrshire Council; Iona Colvin, Director of Health and Social Care Partnership, North Ayrshire Council/NHS Ayrshire and Arran; Roddy Burns, Chief Executive, Moray Council; Pamela Gowans, Chief Officer of Health and Social Care Integration, NHS Grampian.

27th Meeting, 2014 (Session 4) Wednesday 05 November 2014

Barry White, Chief Executive, and Peter Reekie, Finance Director, Scottish Futures Trust.

28th Meeting, 2014 (Session 4) Wednesday 12 November 2014

Philip Hogg, Chief Executive, Homes for Scotland; David Stewart, Policy Manager, Scottish Federation of Housing Associations; John Hamilton, Chairman, Scottish Property Federation; Ian Honeyman, Commercial Director, Scottish Building Federation.

30th Meeting, 2014 (Session 4) Wednesday 26 November 2014

Liam McArthur MSP, member of the Scottish Parliamentary Corporate Body, Paul Grice, Clerk/Chief Executive, and Derek Croll, Head of Financial Resources, Scottish Parliament.
31st Meeting, 2014 (Session 4) Monday 01 December 2014

John Swinney, Cabinet Secretary for Finance, Constitution and Economy, Andrew Watson, Deputy Director for Financial Strategy, Graham Owenson, Head of Local Government Finance Unit, Alison Cumming, Head of Tax Policy, and Terry Holmes, Principal Accountancy Adviser, Finance Directorate, Scottish Government.

1st Meeting, 2015 (Session 4) Wednesday 7 January 2015

Record of decisions in private

Gavin Brown proposed that for residential transactions subject to LBTT there should be an additional tax band with a rate of 5% for properties from £250,001-£500,000, that the threshold for the nil rate should be raised to £140,000 and that funding to meet the reduction in forecast revenue as a result of this proposal should come from the entirety of the change to the block grant that would arise following the changes to UK SDLT and a proportion of the non-health Barnett consequentials arising from the Autumn Statement on 3 December 2014.

The proposal was disagreed to by division: For: 1 (Gavin Brown), Against: 6 (Malcolm Chisholm, Kenneth Gibson, John Mason, Mark McDonald, Michael McMahon, Jean Urquhart), Abstentions, 0.

ANNEXE B: INDEX OF WRITTEN EVIDENCE

Written submissions—
- Angus Council (11KB pdf)
- Chartered Institute Of Taxation (18KB pdf)
- City of Edinburgh Council (9KB pdf)
- Council of Letting Agents (29KB pdf)
- Council of Mortgage Lenders (13KB pdf)
- Gillespie MacAndrew LLP (10KB pdf)
- Glasgow CPP (45KB pdf)
- Homes for Scotland (34KB pdf)
- KPMG LLP (11KB pdf)
- Moray CPP (33KB pdf)
- North Ayrshire CPP (39KB pdf)
- National Union of Students (139KB pdf)
- Pinsent Masons (10KB pdf)
- Scottish Association of Landlords (18KB pdf)
- Savills (11KB pdf)
- Scottish Building Federation (44KB pdf)
- Scottish Property Federation (58KB pdf)
- Scottish Retail Consortium (101KB pdf)
- Scottish Council for Voluntary Organisations (15KB pdf)
- Scottish Federation of Housing Associations (25KB pdf)

Additional Written Submission—
- Additional submission Scottish Council of Voluntary Organisations (19KB pdf)
ANNEXE C: REPORTS FROM OTHER COMMITTEES AND THE SCOTTISH COMMISSION FOR PUBLIC AUDIT

- Economy, Energy and Tourism Committee
- Education and Culture Committee
- Equal Opportunities Committee
- European and External Relations Committee
- Health and Sport Committee
- Infrastructure and Capital Investment Committee
- Justice Committee
- Local Government and Regeneration Committee
- Rural Affairs, Climate Change and Environment Committee
- Welfare Reform Committee
- Scottish Commission for Public Audit
Members who would like a printed copy of this *Numbered Report* to be forwarded to them should give notice at the Document Supply Centre.