FINANCE COMMITTEE

AMENDED AGENDA

16th Meeting, 2004 (Session 2)

Tuesday 25 May 2004

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Budget Process 2005-06:** The Committee will consider a paper by the Budget Adviser on trends in capital spending by the Scottish Executive in the past five years.

2. **Budget Process 2005-06:** The Committee will consider subject committees’ reports on Stage one of the Budget Process 2005-06 and other written evidence.

3. **Budget Process 2005-06:** The Committee will take evidence as part of its consideration of Stage one of the Budget Process 2005-06 from—
   
   Tavish Scott, MSP, Deputy Minister for Finance and Public Services; and
   
   Richard Dennis, Finance Co-Ordination Team Leader, Scottish Executive.

4. **Scottish Parliament Building Project:** The Committee will consider correspondence relating to the Holyrood Building Project.

5. **Cross Cutting Expenditure Review on Economic Development (in private):** The Committee will continue its consideration of an approach paper by the Clerk for phase two of its review.

6. **Inquiry into the Relocation of Public Sector Jobs (in private):** The Committee will consider an issues paper by the Clerk.

7. **Emergency Workers (Scotland) Bill (in private):** The Committee will consider its draft report on the Bill’s Financial Memorandum.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 1**

Paper by the Budget Adviser

**Agenda Item 2**

Communities Committee Stage One Report
Education Committee Stage One Report
Enterprise Committee Stage One Report
Environment Committee Stage One Report
Equal Opportunities Committee Stage One Report
Health Committee Stage One Report
Justice 1 and 2 Committees Stage One Report
Local Government and Transport Committee Stage One Report

Written submissions

Paper by the Budget Adviser – to follow

**Agenda Item 3**

PRIVATE PAPER

**Agenda Item 4**

Correspondence from the Presiding Officer – to follow

Paper from the Clerk and correspondence from Paul Grice, dated 29 April 2004 and from Sarah Davidson, dated 6 May 2004

**Agenda Item 5**

PRIVATE PAPER

**Agenda Item 6**

PRIVATE PAPER

**Agenda Item 7**

PRIVATE PAPER
Finance Committee

15th Meeting 2004 – Tuesday 25 May 2004

Trends in Capital Spending in the Scottish Budget

Executive Summary

1. The key objective of the reformed public spending framework is to deliver stable and sustainable expenditure growth, with strict control over borrowing and public sector debt. Within this framework is a particular concern to tackle the bias against capital expenditure, through the introduction of separate capital and resource budgets, and end-year flexibility to allow carry-forward of unused resources into the next budget year. This would avoid wasteful splurges towards the end of the financial year.

2. From 1999, the UK Government planned a significant increase in capital expenditure, both in real terms and as a proportion of total expenditure. Plans for devolved expenditure in Scotland reflected this, although under the financial arrangements such provision was indicative, leaving devolved administrations free to make their own choices within the public spending envelope.

3. This report examines the trends in capital expenditure in the Scottish Budget. The exercise is problematic because of the introduction of resource accounting (RAB); and the resultant redefinition of capital expenditure to classify only investment which adds value to the asset base of government being treated as capital spending in accounting terms. These constraints made it impossible to develop a single, consistent time series of capital spending over the period, but with the additional information provided by the Finance Coordination team within the Executive it is possible to reach broad judgements about capital spending decisions.

4. The research shows that the key trends in capital spending since devolution are:
   - real growth in the capital spending of around 3.8% pa;
   - growth in the proportion of the budget allocated to capital expenditure to 2002-3, and a modest decline since then;
   - growth in the Scottish share of identifiable capital expenditure in the UK from 1999-2000.
   - significant slippage in capital programmes in a context of budget growth.

5. These findings raise a few issues for the Finance Committee in its scrutiny of the Executive’s spending plans for Spending Review 2004. These are:
• whilst there has been real growth in capital spending, we have been unable to find a clear policy commitment to increase capital spending in the Scottish Budget, nor any long-term target. It would be helpful if the Minister could clarify the position; moreover

• given the importance of capital investment for promoting economic growth, should the capital programme of itself not be a stated priority for additional funding in Spending Review 2004? and

• furthermore, as capital spending has a greater propensity for expenditure slippage, should not the rules for EYF in Scotland ring-fence such funding for use on capital projects?

6. The report shows that overall, capital spending has received a significant increase in contrast to consistent decline in the years prior to devolution. This is an important shift in budget priorities, which is further reflected in Scotland’s growing share of UK totals.

7. The Finance Committee should enter discussions with the Executive with a view to receiving updated time-series data on capital spending in the Spending Review report which will be published in September, and the inclusion of a clear strategy for capital spending in that document.
The Planning and Control of Capital Expenditure

Background
8. There have been significant changes in the arrangements for planning and controlling capital spending since the election of the Labour Government in 1997. The rationale for these changes is set out in some depth in the Treasury’s major monograph on Reforming Britain’s Economic and Financial Policy (HM Treasury 2002), and is summarised in this paper.

9. The key objective of the reforms to the public spending framework was the delivery of stable and sustainable public expenditure growth, within the fiscal strategy’s two firm rules – that government should borrow only to invest over the economic cycle; and public sector net debt would be held at a stable and prudent level. The reforms included a shift from annual to three year firm spending plans; the separation of spending into capital and resource budgets; the use of end-year flexibility to avoid wasteful expenditure; and an emphasis on spending outcomes.

10. The new approach to capital spending has been interpreted as a means of correcting “long standing underinvestment in the public sector” (Emmerson, Frayne and Love 2003 p 9) which reflected the “bias against capital which has contributed to a considerable underinvestment in public assets” (HM Treasury 2002, p 160). This new approach was intended to be fair between generations, so that the citizens of the future do not pay for the costs of current spending which benefits us today. The document recognised that it was not practical to match the streams of costs and benefits in each spending project, but rather through broad aggregative judgements. The broad objective was that only net capital spending (after accounting for depreciation) on new assets should be funded by borrowing. This required the quantification of current asset bases and the introduction of accruals accounting to reflect non-cash costs. The Treasury argued:

“The old framework did little to ensure the good management of assets. A strategy for improving asset management was difficult to devise with the poor and imprecise information available to departments and ministers about quantity, value and condition of public assets. Cash budgets provided no incentive to count the full economic cost of retaining assets over time”. (p 232)

11. Through the introduction of Resource Accounting and Budgeting, (RAB) the Government sought to ensure that economic costs such as depreciation were taken account of, and the broad judgements over aggregate spending reflected in the current-capital distinction were mirrored at departmental level. Therefore,
“A central reform of the allocating and monitoring of capital is the linking of new investment to the state and management of the asset base”. (p 237)

12. Under RAB, expenditure scores on an accruals basis, by including non-cash costs such as annual depreciation and capital charges which reflect the consumption of assets. This gives departments incentives to manage their assets better, as reductions in non-cash charges release resources for use in the Departmental Expenditure Limits (DEL) and encourages departments to only retain these assets which are absolutely necessary. The budget becomes the “full resource consumption and capital investment by spending bodies” (p246).

13. These changes reflect long-standing criticisms. One major review of public expenditure in Britain concluded that:

“The problems currently emerging in the condition of school buildings, hospitals, roads and rail networks reflect years – at least 23 years of capital expenditure neglect” (Mullard, 2001, p 316).

Mullard’s view is that both Labour and Conservative Governments have used the reduction of capital expenditure in particular as a key means to reduce public spending in general, as it is less visible than current jobs and wages. The result was that capital expenditure was at its lowest ever level in 1999 (Emmerson, Frayne and Love 2003).

14. A major study of cutback management in the period 1977-1985 reached the same conclusion, noting that programmes proportionately high in capital as compared with current expenditure ‘will suffer early and much’ (Dunsire and Hood 1989), whilst Joel Barnett (1980) described capital expenditure as have been “deferred, deferred and deferred again”, and Foster and Plowden (1996) calculated that between 1968 and 1988, public capital formation fell to about one-third of its 1968 ratio to GDP, leading in particular to years of neglect for investment in the water industry.

15. For our present purposes, the most interesting and relevant comment is that by William Keegan (2003). That underspending led to “the bizarre outturn in which capital spending ended up lower in 1997-2001 than in any previous four-year period in recent decades” (p 279), which reflected the low based inherited from the previous government – which had halved capital expenditure from 1993-1994 to 1996-7 (around £6 billions) and the freeze on spending in Labour’s first two years in office.

16. A number of analysts argue there is merit in distinguishing between capital and current expenditure, to make allowances for capital consumption. For example Lipsey (2000) argued for not treating public spending as a ‘single homogenous lump’ (p 138) as capital spending on infrastructure could
increase the national wealth; whilst transfer payments simply redistributed it. One leading analyst, Andrew Likierman (1988) argued for the introduction of accruals accounting some ten years before being appointed to assist in its implementation, so that a business-like approach to accounting for public assets could be introduced. Interestingly, however, Nigel Lawson (1992) was sceptical of the need to treat capital spending differently. He wrote in his memoirs:

“behind this criticism is a lingering belief that capital spending is either superior to current spending, or at least safer to finance from borrowing. This really will not do. The current-capital distinction does not have the same meaning in the public as in the private sector. School buildings, for example – however desirable and productive in the larger sense – do not provide a cash return which will service debt interest”. (p 295)

17. In addition, SR2000 confirmed the introduction of End-Year Flexibility (EYF) to avoid wasteful end of year spending surges. By allowing carry-forward of unused resources, EYF would make the past practice of spending quickly to avoid losing funding to the Treasury unnecessary when slippage occurred. This resulted in projects being implemented in which expenditure could be incurred quickly rather than on the basis of need and priority.

18. Finally, the present analysis needs to consider the position of the Executive’s spending within the UK system. This is reported in the Statement of Funding Policy which states that the devolved administrations’ budgets continue to be determined within the framework of public expenditure control in the UK, but that within the totals, they have the freedom to make their own spending decisions. This means the figures included for capital spending in Scotland in UK Spending Review are indicative.

19. The Statement of Funding Policy acknowledges the need to treat capital and current expenditure streams differently, and to include the consumption of fixed assets and the costs of holding them within current expenditure, and for capital expenditure to reflect long-term investment rather than cash spent in the year of acquisition. From Spending Review 2002, budgets included non-cash charges such as depreciation and capital charges which were temporarily placed in Annually Managed Expenditure (AME). It therefore reflected the existing asset base in the Spending Review 2000. The result is:

“separating spending into a capital budget and a resource budget with limited flexibility for transferring from capital to resource spending, together with the continuation of separate administrative cost controls, ensures that essential capital investment is not squeezed out by short-term pressures….“ (HM Treasury 2000 p 13)
20. It also notes that the Executive can sanction borrowing by local authorities and other public bodies but must ensure that the financing costs of higher borrowing are met locally – either from the assigned budget, local taxation, through higher charges for services; or capital growth from the UK Exchequer.

Financial Data in the UK Comprehensive Spending Reviews (CSR)
21. It was noted earlier that DEL allocations to the devolved administrations are indicative in terms of the split between resource and capital budgets. Nevertheless the CSR documents contain useful information regarding trends in capital spending plans. The statistical data base has been much strengthened in the CSR documents since 1998. In the first CSR (HM Treasury 1998) capital spending plans to 2004 were presented with the indicative provision for Scotland. During this period public sector net investment (i.e. net of depreciation) was planned to grow from 0.9% of UK GDP to 1.4% (PSNI for Scotland is not included in the document).

Table 1: DEL Capital Budget, 1996-97 to 2001-02 (£ billions)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>1.5</td>
<td>1.4</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>UK total</td>
<td>11.7</td>
<td>11.4</td>
<td>12.0</td>
<td>13.1</td>
<td>15.1</td>
<td>17.8</td>
</tr>
<tr>
<td>% Share</td>
<td>12.8</td>
<td>12.3</td>
<td>12.5</td>
<td>12.2</td>
<td>11.3</td>
<td>10.1</td>
</tr>
</tbody>
</table>


22. In the 2000 Spending Review RAB was introduced within AME, in terms of “the big non-cash items – depreciation, cost of capital charges and provision to allow departments to build up expertise in analysing and forecasting these items” (HM Treasury 2000 p 158). This did not apply to borrowing consents for public corporations, which were included “in departmental budgets in DEL not in accounting adjustments in AME” (p 146). Further additional spending was allocated in the Spending Review, thereby increasing the capital budget DEL significantly over the 1998 document. Scotland’s position is set out in Table 2 below. This document showed a further planned growth in UKPSNI to 1.8% of GDP.

Table 2: DEL Capital Budget, 1999-2000 to 2003-04 (£ billions)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>1.8</td>
<td>2.3</td>
<td>2.7</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>UK total</td>
<td>18.2</td>
<td>22.4</td>
<td>27.0</td>
<td>31.9</td>
<td>36.6</td>
</tr>
<tr>
<td>% Share</td>
<td>9.9</td>
<td>10.3</td>
<td>10.0</td>
<td>9.4</td>
<td>8.7</td>
</tr>
</tbody>
</table>

23. Spending Review 2002 completed the transition to RAB by transferring the non-cash costs into the Departmental Expenditure Limits from AME. A further complication of RAB is that “grants paid to the private sector – for example to universities – are managed in the resource budgets”, as they do not create “an asset on the balance sheet of government”, whilst “investment by public corporations financed by their own resources no longer count as part of the parent departments capital DEL” (HM Treasury, 2002g p 176).

24. These changes had the effect of inflating the figures of resource DELs, and sometimes lowering capital DELs. The 2002 Spending Review therefore presented the financial data in both resource and cash terms for transparency purposes. Scotland’s position is recorded in Table 3 below. These figures show further planned growth of UKPNSI to 2% of GNP (HM Treasury 2002 p174). It is also necessary to note that Scotland’s planned expenditure growth was slower than that for the UK, although precise comparisons are not possible because the mix of service responsibilities differ but each table shows Scotland’s indicative share of the capital budget falling over time, reflecting a declining share of UK population.

<table>
<thead>
<tr>
<th>Year</th>
<th>DEL Capital Budget 2001-02 to 2005-06 (£ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>1.6</td>
</tr>
<tr>
<td>UK total</td>
<td>18.3</td>
</tr>
<tr>
<td>% Share</td>
<td>8.7</td>
</tr>
</tbody>
</table>


25. Scotland’s set of budget reports include the biennial spending plans report (currently known as BABS); the AER; the Draft Budget; and Scotland’s Budget Documents. The last of these provides the basis for parliamentary control of expenditure. The spending plans documents summarise the results of the Scottish Spending Review, but these have never contained data on capital expenditure. The AERs have varied in purpose. The last version of Serving Scotland’s Needs (Scottish Office 1999) reported a planned capital budget of £1.68bn – slightly above the £1.60bn figure reported in the UK Spending Review. This gap remained in the plans (£1.80bn and £1.95bn for 2000-1 and 2001-2). The first post devolution AER reports slightly higher figures of £1.94bn and £2.06bn for the same years (Scottish Executive 2001). The next AER combined capital spending in DEL and AME to produce a figure of £2.4bn for 2002-3, or £1.88bn for the capital DEL. The 2003-4 AER showed a much smaller figure for the DEL capital budget of around £1bn (Scottish Executive 2002 p 11) reflecting the accounting charges discussed earlier. The new AER (Scottish Executive 2004) reports a DEL capital budget of £1.5; £1.6 and £1.7bn
from 2003-4 to 2005-6. There has been no consistent approach to setting out capital spending in the AER, varying between total capital spending, DEL capital spending, and DEL excluding capital grants, which makes the AER an unsuitable document to map trends.

26. The next potential source is the Draft Budget, which has the advantage of following Spending Reviews and therefore includes more timely data, but these reports too suffer from the exclusion of capital grants to the public sector following the introduction of RAB in 2000. Draft Budget 2002-3 (Scottish Executive 2001) includes these and records capital expenditure estimates of £2.4bn. Draft Budget 2003-4 (Scottish Executive 2002) reworks the data according to RAB practice, and shows DEL capital spend of £1.3bn for 2002-3, supplemented by capital spending within PPPs of £0.161bn. For this period, the DEL capital budget is planned to grow from £1.345bn to £1.646bn by 2005-6 – a growth of 22% in cash terms whilst the capital budgets share of the DEL declines marginally from 7.4% to 7.3%. Draft Budget 2004-5 (Scottish Executive 2003) shows little change, with figures of £1.58 bn; £1.55bn and £1.6bn for the period 2003-4 to 2005-6 but showing a fallen share of the Scottish DEL, 7.2% by 2005-06.

27. The accounting changes make precise trends in capital spending difficult to assess on the basis of published financial data. After discussion with Finance Co-ordination in the Executive, they have been able to produce some consistent data for our purposes, including capital grants to the private sector, local authorities and PPP capital as well as direct and NDPB capital spending (See Annexe).

28. This data covers the years from 2002-3 to 2005-6, the period since the full implementation of RAB, and therefore unsuitable for direct comparison with the 1999-2000 to 2001-2 period. The data for that period is also problematic because of the partial introduction of resource accounting within AME for 2000, so I have used Investing in You as a baseline document. This will allow us to examine how capital spend fared in both absolute and relative terms since devolution in 1999.

Table 4: Capital Expenditure Plans for Period 1999-2000 to 2001-02 (£m cash)

<table>
<thead>
<tr>
<th>Year</th>
<th>PFI</th>
<th>Public Procurement</th>
<th>Scottish Budget (b/c)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>473</td>
<td>1839</td>
<td>16213</td>
<td>11.3%</td>
</tr>
<tr>
<td>2000-01</td>
<td>669</td>
<td>1940</td>
<td>16702</td>
<td>11.6%</td>
</tr>
<tr>
<td>2001-02</td>
<td>412</td>
<td>2061</td>
<td>17443</td>
<td>11.8%</td>
</tr>
</tbody>
</table>


29. *Investing in You* presents a table of publicly sponsored capital expenditure, which includes capital spending through PFI projects (which is not included
in the public accounts) and capital spending by the public sector under conventional procurement. The latter category is defined as “expenditure by the Scottish Executive, its Agencies and Associated Departments, Scottish Local Authorities and other public bodies within the responsibility of the Scottish Executive. Expenditure follows the national accounts definition which includes: gross domestic fixed capital formation (net of receipts for disposal), grants to support spending by the private sector and the value of the physical increase in stocks. This approximates broadly to categories 1-4 in the tables supplied by Finance Co-ordination – with PPP replacing the PFI figure.

30. The Spending Reviews of 2000 and 2002 both increased public spending significantly in real terms, and also through the introduction of non-cash costs under RAB. For indicative purposes, however, we can examine and compare the trends within and between the two accounting periods. Table 4 sets out the plans for capital spending in cash terms. It shows that capital spending increased both in total and as a proportion of the Scottish Budget.

31. When we examine the second period (See Table 5 below), the percentage share changes dramatically because the calculations are in resource terms. This shows capital spending continuing to grow in resource terms, but falling as a proportion of the Scottish Budget.

Table 5: Capital Expenditure Plans for period 2002-03 to 2005-06 (£m resource terms)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>TME</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-3</td>
<td>1970</td>
<td>20972</td>
<td>9.4</td>
</tr>
<tr>
<td>2003-4</td>
<td>2036</td>
<td>22854</td>
<td>8.9</td>
</tr>
<tr>
<td>2004-5</td>
<td>2162</td>
<td>24210</td>
<td>8.9</td>
</tr>
<tr>
<td>2005-6</td>
<td>2358</td>
<td>25857</td>
<td>9.1</td>
</tr>
</tbody>
</table>

Source: Data adapted from Annex One and Building a Better Scotland

32. It may of course be that the Executive reached a conscious judgement that capital spending did not need to increase as a proportion of the budget – as the composition of public spending between capital and current spending was broadly correct – The Committee may wish to seek an explanation for this trend from the Executive. If we return to the last edition of Serving Scotland’s Needs prior to devolution, we can get a broader picture going back to 1993-4 – although the figures are in cash terms – and these show a continuing fall in capital spending; and a falling share of total spending until 1998-9 (See Table 6)
Table 6: Capital Spending in the Scotland Programme 1993-94 to 1998-99 (£cash, outturn terms)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>Total Budget</th>
<th>%Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-4</td>
<td>2017</td>
<td>13712</td>
<td>14.7</td>
</tr>
<tr>
<td>1994-5</td>
<td>1902</td>
<td>14229</td>
<td>13.4</td>
</tr>
<tr>
<td>1995-6</td>
<td>1749</td>
<td>14554</td>
<td>12.0</td>
</tr>
<tr>
<td>1996-7</td>
<td>1567</td>
<td>14831</td>
<td>10.6</td>
</tr>
<tr>
<td>1997-8</td>
<td>1406</td>
<td>14774</td>
<td>9.5</td>
</tr>
<tr>
<td>1998-9*</td>
<td>1633</td>
<td>15410</td>
<td>10.6</td>
</tr>
</tbody>
</table>

*estimated outturn

33. We can assist this examination further by converting the figures to real terms financial data in both resource and cash terms for transparency purposes. The figures show that capital spending did indeed fall significantly in real terms prior to devolution and that it has been growing consistently in real terms since then. Moreover, whilst it had consumed a declining share of public spending prior to devolution, it has remained broadly stable since then.

34. The figures have been converted by the GDP deflator into real terms. In the pre-devolution period, capital spending fell from £2017m in 1993-4 to £1433m in 1998-9 (1993-4 prices); a fall of 29% or 5.8% pa. In the period from 1999-2000 to 2001-2, capital spending grew from £1839m to £1983m (1999-00 prices): a growth of 7.8% or 3.9% pa. Spending Review 2002 continues the real growth in spending from £1970m to £2187m (real resource terms); a growth of 11% or 3.7 pa. This is slightly below the real growth in the Scottish Budget since devolution, which has averaged around 4.6% (Building a Better Scotland 2002).

**End-Year Flexibility (EYF)**

35. One of the conventional problems of managing capital expenditure is that of slippage in the programmes, often known as underspending. This can arise for a range of reasons, such as bad weather or lack of materials, making slippage on capital spending more common than current spending.

36. It was in part to deal with this problem that end-year flexibility (EYF) was introduced by the Treasury in 1997. The previous system, as noted earlier, allowed departments to “cut back on investment to meet more pressing needs such as public sector wages”. (Emmerson et al 2000 p 8) EYF was introduced to eliminate “end-of-year splurges” (p 10). The logical consequences of EYF therefore would be to increase the amount of ‘underspending’ or more accurately the financial gap between planned and outturn expenditure. Nevertheless, there have been both political and media criticisms of the scale of resources carried forward under EYF. Members should be clear that the sole purpose of EYF is to permit carry-
forward of unused resources and avoid wasteful spending in the short term. It is unsuitable for tax reductions as suggested in the media.

37. The Executive’s approach prior to Budget 2004-5 was to allow departments to automatically carry-forward 75% of their slippage, and make 25% available for redistribution within the Scottish Budget. In the current year, departments were permitted 100% carry-forward, but required to fund elements of the new Partnership Agreement within these allocations. The amounts actually carried forward were £430m from EYF 2000; £718m from EYF 2001; £693m from EYF 2002; and £441m from EYF 2003.

38. Separate data for capital and current expenditure has only been in the public domain since the EYF 2002 announcement, and Finance Coordination provided me with relevant data for the two previous EYF announcements. The overall position is set out in Table 7, and capital expenditure accounts for an average of 36% of EYF monies, compared with 9% of the Scottish Budget. However, the Scottish Executive has four major capital programmes in the current budget, namely health (c £300m pa) roads (c £250m pa) water (£190m pa) and local government (c £400m pa), and the degree of underspending on capital has been inflated in recent years by the planned slippage in the water programme.

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>Total*</th>
<th>%Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>EYF 2000</td>
<td>134</td>
<td>430</td>
<td>33</td>
</tr>
<tr>
<td>EYF 2001</td>
<td>186</td>
<td>718</td>
<td>26</td>
</tr>
<tr>
<td>EYF 2002</td>
<td>256</td>
<td>643</td>
<td>40</td>
</tr>
<tr>
<td>EYF 2003</td>
<td>177</td>
<td>408</td>
<td>43</td>
</tr>
</tbody>
</table>

Source: Finance Coordination

*Includes slippage in SPCB budget and Audit Scotland

39. One final observation is necessary. The exceptional growth in funding post-devolution was a new experience for programme managers, and it is not surprising that there was a growth in slippage at the same time. The evidence now suggests that this is falling, and the Committee has also reported on the particular problems with investment in Scottish Water. However, EYF is intended to permit underspending for planning purposes, and it is the unintended slippage in capital programmes which is of most concern. Overall, Scottish slippage was 4.6%, whilst the position in programmes in the UK was 3.7% in 2002-3 (HM Treasury 2003), which will reflect the differing mix of service responsibilities.

Public Expenditure Statistical Analyses Data

40. A new source of capital expenditure data from April 2004 is the Treasury Annual Public Expenditure Statistical Analyses (PESA) series. Capital spending in the nations and regions of the UK is included on a comparable
basis for the first time. This sets out identifiable public expenditure (expenditure which benefits a particular area of the UK) combining both the Executive and UK spending programmes. Unfortunately, this cannot be separated out precisely for both administrations, but should still be treated as a reasonable proxy for devolved capital spending as the four major capital programmes – health, housing, local government and water – are all devolved functions.

41. Table 8 sets out Scotland’s share of identifiable capital expenditure since devolution and shows that it grew from 11.2% to 11.7% over the period, but reached a peak of 12.9% in 2001-2, then fell back in mainly because of slippage in the Water Programme.

Table 8: Identifiable Capital Expenditure in Scotland since Devolution (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Scotland</th>
<th>UK</th>
<th>Share</th>
</tr>
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<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>1554</td>
<td>13807</td>
<td>11.2</td>
</tr>
<tr>
<td>2000-01</td>
<td>1763</td>
<td>14672</td>
<td>12.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>2481</td>
<td>19175</td>
<td>12.9</td>
</tr>
<tr>
<td>2002-03</td>
<td>2486</td>
<td>21321</td>
<td>11.7</td>
</tr>
</tbody>
</table>

Source: Public Expenditure Statistical Analyses 2004

42. A similar trend is found if we look at the proportion of total spending on services allocated to capital expenditure. This grows from 5.7% to 7.5% again peaking in 2001-2. This strongly infers that the Executive gave a somewhat greater priority to capital expenditure than provided for in the UK Spending Review.

Table 9: Capital Spending by a Proportion of Total Expenditure on Services (TES) in Scotland (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>TES</th>
<th>%</th>
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<tbody>
<tr>
<td>1999-00</td>
<td>1544</td>
<td>27142</td>
<td>5.7</td>
</tr>
<tr>
<td>2000-1</td>
<td>1763</td>
<td>28605</td>
<td>6.2</td>
</tr>
<tr>
<td>2001-2</td>
<td>2481</td>
<td>31696</td>
<td>7.8</td>
</tr>
<tr>
<td>2002-3</td>
<td>2486</td>
<td>33254</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: PESA 2004

Conclusions

43. The UK Government reformatted its arrangements for controlling public expenditure in part to provide “special treatment – to protect investment for the future from being raided to fund short term pressures” (HM Treasury 2000, para 55) and to promote “sustained growth (which) will reverse the decline in public infrastructure, allowing substantial programmes of investment in transport, health, education and other priorities” (HM Treasury 2000 para 58). The Scottish Executive inherited a capital programme which aimed to “take account of past underinvestment” (Scottish Office 1999 p 18). This report has examined the impact of this strategy since 1999.
44. In summary, the research shows that the key trends in capital spending in the Scottish Budget since devolution were:

- growth in capital spending in real terms since 1999;
- growth in the proportion of the budget allocated to capital until 2002-3, and a modest decline since then;
- growth in the Scottish share of identifiable capital expenditure in the UK from 1999-2000 to 2002-3.
- significant slippage in capital programmes in a context of budget growth.

The report shows that overall, capital spending has received a significant increase in contrast to consistent decline in the years prior to devolution. This is an important shift in budget priorities, which is further reflected in Scotland’s growing share of UK totals. The research also shows that the concern expressed in Committee that resources intended for capital programmes were being transferred to current spending is not supported by the evidence.

45. These findings raise a number of issues for the Finance Committee in its scrutiny of the Executive’s spending plans for Spending Review 2004. These are:

- whilst there has been real growth in capital spending, we have been unable to find a clear policy commitment to increase capital spending in the Scottish Budget, nor any long-term target. It would be helpful if the Minister could clarify the position; moreover

- given the importance of capital investment for promoting economic growth, should the capital programme of itself not be a stated priority for additional funding in Spending Review 2004? and furthermore

- as capital spending has a greater propensity for expenditure slippage, should not the rules for EYF in Scotland ring-fence such funding for use on capital projects only?

46. Finally, it would be helpful to have discussions with the Executive over the scope for including time series data on capital expenditure plans and outturn in the Spending Review document expected in September – as it sets the Executive’s plans for the next three budgets, and is the equivalent to the UK government biennial Spending Review document which include such data. This also places the UK spending plans in their economic context, and given the current status of economic growth as the Executive’s top priority this could provide a helpful rationale for the new spending plans
on capital expenditure, whilst recognising these will also have important social and environmental benefits.

Professor Arthur Midwinter
Adviser to the Finance Committee
Footnotes


HM Treasury (2000b) Sustainable Public Spending Lessons from previous policy experience.


## Annexe

### CAPITAL SPENDING (DEL) & NET INVESTMENT (DEL) 2002-03
(After Spring Budget Revision)

<table>
<thead>
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<th>Portfolio</th>
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<td><strong>Total Net Investment</strong></td>
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CAPITAL SPENDING (DEL) & NET INVESTMENT (DEL) 2003-04
(After Spring Budget Revision)

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## CAPITAL SPENDING (DEL) & NET INVESTMENT (DEL) 2004-05
(Initial Budget)

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## CAPITAL SPENDING (DEL) & NET INVESTMENT (DEL) 2005-06
(Initial Budget)

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<td>Communities</td>
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<td>Transport</td>
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<tr>
<td>Forestry Commission</td>
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<td>0</td>
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<tr>
<td>Scottish Parliament</td>
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<tr>
<td>Audit Scotland</td>
<td>420</td>
<td>0</td>
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<tr>
<td>Reserve/CMF 5</td>
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<td>0</td>
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<tr>
<td><strong>Total Net Investment</strong></td>
<td><strong>845,577</strong></td>
<td><strong>27,789</strong></td>
</tr>
</tbody>
</table>
Notes:

* Capital grants to the private sector scored as capital DEL up to and including 2002-03.

1. In 2002-03 the Health Department received additional provision of £115m to cover the capitalisation of the new Edinburgh Royal Infirmary (direct capital). This provision does not exist in the 2003-04, 2004-05 or 2005-06 figures.

2. The treatment of Scottish Water and other Public Corporations changed between 2002-03 & 2003-04. In essence, in 2002-03 capital expenditure less profit scored and thereafter net lending scored. To provide a comparable figure for 2002-03 £245m should be deducted from the direct capital figure for Environment & Rural Development.

3. In 2004-05 the introduction of the Prudential Regime (from 1 April) affects the Finance & Public Services figures.

4. The capital grants to Local Authorities figure for Finance & Public Services (FPS) differs from that which was published in the Budget Bill 2004-05. This table includes Justice Police & Fire GAE within the Finance & Public Services heading because this table has been produced on a portfolio basis and this expenditure forms part of AEF within the FPS portfolio.

5. There are no figures in the Reserve/CMF line for 2002-03 & 2003-04 because these figures represent a year end budget position and by the year end the provision within the reserve has been allocated amongst the various portfolios. In 2004-05 & 2005-06 the figures represent planned budgets and therefore have provision within the reserve/CMF for allocation during the year.
Communities Committee

Stage 2 Report to the Finance Committee on the 2005/06 Budget Process

The Communities Committee reports to the Finance Committee as follows—

Introduction

1. The Scottish Executive announced its high-level strategy underpinning detailed spending plans for 2005/06 in the Annual Evaluation Report on 31 March 2004. The document is significantly different from previous Stage 1 budget documents, and includes greater emphasis on the use of specific targets as indicators of the Executive’s progress.


3. At its meeting on 28 April 2004 the Committee heard oral evidence from the Deputy Minister for Communities.

4. The Committee also received written evidence from the Chartered Institute of Housing in Scotland and Volunteer Development Scotland (see Annexe K).

5. The Committee wishes to thank all those organisations who submitted evidence to the Committee. Further, the Committee wishes to thank SPICe and Professor Arthur Midwinter, the Standing Adviser to the Finance Committee, for their work in supporting the Committee in its scrutiny of the budget.

General

6. The Committee generally welcomed the new format of the Stage 1 budget document. The Committee also noted that the move towards reporting progress against targets as set out in the Draft Budget 2004/05 is designed to provide more information to Members on whether previous targets are being achieved. However the Committee has concerns over whether the targets which are set out in the document are the most appropriate indicators of progress.

7. Further, the Committee welcomed the clarity in which changes within the Communities portfolio budget have been included. Whilst noting that the document only provides Level 3 figures for 2005/06, the Committee recognises that this is
due to the imminent Spending Review 2004 (SR04), and that these figures will provide the baseline for the SR04.

8. Although the Communities budget seems to be growing, it is doing so at a proportionally slower pace than the budget as a whole. Compared to overall growth in the Budget of 15.9% between 2003-04 and 2005-06, the Communities budget is only growing at 3.36% during the same period. The figures also demonstrate that whilst the Communities budget is increasing year on year, in the period from 2003-04 to 2005-06 the proportion of the overall Executive budget, which it represents, is falling from 3.56% in 2003-04 to 3.17% in 2005-06. The Communities budget also appears to be reducing between 2004 and 2006 by £43m per year compared with figures in the Draft Budget 2004/05.

9. Whilst the Committee understands that not all spending on the cross-cutting stated priority of ‘Closing the Opportunity Gap’ is within the Communities portfolio, given that the vast majority of headings within the Communities portfolio are poverty-related, the Committee was under the impression that the portfolio itself would be considered a priority in resource terms. However it is unable to find the information which would justify the statement from the Deputy Minister which stated that—

At first sight, it appears in the AER that the budget provision between 2004 and 2006 is being reduced by £43 million a year…..I state that resources are in fact increasing.¹

10. The explanation given by officials as to one of the reasons behind the apparent drop in the Communities budget was that—

there is a lot going on underneath the headline increases, and that makes it difficult to take the figures at face value. A particular example is the move to the prudential borrowing regime in local authority housing; in 2003-04 there was £130 million in the budget for borrowing consents to local government, but in 2004-05 and 2005-06 that has been removed. That does not reflect a reduction in borrowing; it means simply that under the prudential borrowing regime the money does not count as Scottish Executive public spending. The underlying picture is quite different. As the annual evaluation report shows, in 2004-05 and 2005-06, in exchange for losing £130 million of borrowing, we have gained about £70 million of grant. The overall picture shows that the portfolio's spending power is quite substantially increased.

11. While this does shed some light on the reduction, the Committee does not fully understand why figures which show the extent of borrowing consents were included in the initial figures of the Communities budget. While acknowledging that it is likely to be an accounting procedure, it would be helpful if a fuller explanation could be provided on both the borrowing consents to local authorities and where the £70m grant is represented in the budget.

12. The Communities Committee is concerned that it is being tasked with scrutinising the Communities budget provision, but that many of the statements and figures appear to relate to ‘Closing the Opportunity Gap’. The Committee therefore wishes to seek clarification from the Minister on where the additional resources lie within the Communities portfolio.

¹ Official Report, 28 April, Col 840
Poverty related programmes

13. The Committee received advice from the Budget Adviser to the Finance Committee, Professor Midwinter, that poverty related programmes across the Scottish Budget are not rising at the same rate as the overall Budget. This brings into question whether or not tackling poverty is still a priority for the Executive given the Treasury approach of targeting a greater share of the budget than the average, measured by comparing its percentage increase to the budget as a whole.\(^2\)

14. As mentioned above, the Committee has found difficulty in identifying rises in poverty related programmes, and while this is understandably due to a significant amount of resources being spent on these programmes under the Health portfolio’s budget, it would be useful if a reporting mechanism outlining all of the spend in this important area, and indeed other cross-cutting areas, could be devised.

Targets

15. The Executive have now produced four distinct documents which all contain social justice objectives and measurements on the progress of them. The four documents are—

- Social Justice Annual Report;
- Social Justice Indicators of Progress;
- Closing the Opportunity Gap; and
- The Annual Evaluation Report

16. The Committee is supportive of the Executive’s drive to provide as much information on performance as possible. However the information as present is not in a form which allows Members to analyse how the targets relate to each other. It would be of benefit to the process if the targets could be streamlined and consistent across the different documents clearly identifying links and relationships where these exist. However, the Committee does acknowledge that certain documents will contain more comprehensive information than others, and that not all targets and indicators of performance will directly influence spending decisions.

17. The nature of the targets that are used in the AER is also of concern to the Committee. In evidence the Deputy Minister stated that—

> The measurements that we currently use will give us useful information about how we are achieving the objective of closing the opportunity gap.... At the moment we are looking at the right kind of indicators but we cannot sit back and imagine that that is the end of the story; we need to review them continually.\(^3\)

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\(^2\) Communities Committee paper COM/S2/04/14/4, Prof. Midwinter, Page 1

\(^3\) Official Report, 28 April, Col 845/6
18. The Committee would be keen to enter into a dialogue about setting appropriate and relevant targets to allow effective measurement of performance, as well as discussing the manner in which they are produced.

19. In evidence the Minister responded to a question on how the progress of the targets is represented in the AER. The issue was whether the assessment of “ON COURSE” beside each target was truly representative of the progress against the target. The Minister stated that—

   “…as being on course, we are referring to our ability to collect the data that will indicate to us whether we are on course”

20. The Committee recommends that a more appropriate and effective way of illustrating progress against targets should be developed for use in future documents.

21. The Committee also had difficulty in relating the performance targets in the AER to the budget headings. The Committee received evidence from the Minister which suggested that a table illustrating the relations could be made available to the Committee prior to this report being finalised. However despite efforts to procure this information, the Committee is still not in receipt of the table. The Committee would therefore hope that in future any relevant information to assist the Committee’s consideration of the budget would be available in sufficient time to inform the Committee's conclusions, or in this specific case, be included in the AER itself.

Affordable Housing

22. The Committee received evidence from the Chartered Institute of Housing in Scotland (CIHS) that the Executive is on course to deliver on its commitment of approving 18,000 new and improved homes for social rent and low-cost home ownership. However they were concerned that this target is not ambitious enough and will not address the need for affordable housing in Scotland.

23. The Committee was encouraged by the Executive’s announcement that it is currently conducting a review of the issue. The Committee believe there are many issues which should be considered in conjunction with the supply of housing in both urban and rural areas; these include the Planning infrastructure; housing quality; as well as the availability of land for development.

24. The Committee would be keen to play a constructive role in the review. The Committee therefore requests that the Executive provides it with details of the review and the work undertaken to date, and that it is kept informed of its progress at regular intervals.

Volunteering/Voluntary Sector

25. The Committee received written evidence from Volunteer Development Scotland which was very supportive of the Executive’s commitment to ensuring that volunteering is made more accessible to those interested in becoming a

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4 Official Report, 28 April, Col 854
volunteer. It is also providing a solid foundation for voluntary organisations to become involved in a range of policy areas such as; Community Planning; Community Learning and Development; Community Regeneration and Active Citizenship.  

26. The Committee welcomes the Executive’s continued commitment to this area and looks forward to the continued efforts in building the capacity of the sector.

27. The Committee also felt that it would be helpful if the support for the Voluntary Sector as a whole could be easily identified, either in the budget documents themselves, or in footnotes which could indicate where that information could be found.

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5 Volunteer Development Scotland submission to the Communities Committee, 28 April 2004
The Committee reports to the Finance Committee as follows—

Introduction

1. This paper presents the Education Committee’s responses to the questions raised by the Scottish Executive and the Finance Committee in relation to the Scottish Executive’s Annual Evaluation Report 2005-06 (AER). These questions are specifically addressed in the final sections of this paper. The Committee would initially like to make some overarching observations on the need for improving accountability and transparency within the Education and Young People (EYP) budget.

2. Many of the existing eleven targets in Section 3 of the AER relate more directly to the £3.3 billion spent on services for education and young people delivered by local authorities, rather than to the £407 million under the Scottish Executive Education Department (SEED)’s direct control. However, no detail is given on the £3.3 billion spend within the AER. The Committee recognises the importance of protecting local autonomy but feels that this need not prevent a full and transparent picture of the resourcing, delivery and outcomes of all services relating to education and young people throughout Scotland being provided to Parliament and to the general public. The Committee welcomes the Minister’s commitment to establishing a dialogue between its staff and advisers and departmental officials to enable progress to be made on this issue by creating a stronger evidence base and a greater mutual understanding of the breakdown of the local authority spend on education. One area which the Committee may wish to explore further, from the perspective of a stronger evidence base, is the contribution of schools to sustainable rural development. The Committee also noted the importance of the Changing Children’s Services Fund and how, in practice, it is used locally across Scotland.

3. In this report, the Education Committee has attempted to assess how the eleven targets presented in the AER were selected and defined and how progress against the targets is monitored.
Targets

4. The Committee believe that there should be an unbroken chain that connects the budgetary information provided in AER, the eleven targets in the Education and Young People portfolio, the National Education Priorities and the Executive’s new strategic priorities of growing the economy, delivering excellent public services, building stronger, safer communities, and revitalising our democratic frameworks (see Appendices 1 and 2). However, the Committee felt that this chain was not totally robust.

5. In evidence, the Minister indicated his belief in the importance of allowing the eleven targets to run their course in order to ensure continuity of accountability, and the Committee would agree with this statement. He also stressed the importance of not having too many targets, as this might overload the system, and again, the Committee would accept that point as a general guiding principle. However, the Minister then suggested that the Committee was at liberty to select additional indicators and data as it saw fit from other available sources. The Committee wishes to note that it will not be able to fulfil its responsibility of scrutinising the budget process if the targets and the budget allocated to each target remain unspecified.

6. The Committee believes that it is the department’s responsibility to prioritise its strategic activity, select appropriate matching targets and supply the relevant monitoring data. It is not clear how the eleven targets presented in the AER have been identified and the Committee is not convinced that they effectively represent the areas of greatest strategic importance, official activity or resource spend within the Education and Young People portfolio.

Recommendation 1: The Committee requests that the Minister revisit the targets in the light of these comments and the Executive’s new priorities. The achievement of the targets should be measurable and the number of targets not excessive. However, the Committee believes that some targets may be lacking if SEED wishes to give a fuller picture of how it supports the existing strategic priorities. Some areas where the Committee would appreciate additional reporting are noted in paragraphs 7 – 9, and detailed in Appendices 1 and 2. The Committee notes that prioritisation of these would be required.

7. Scottish Executive priorities:

<table>
<thead>
<tr>
<th>Growing the economy:</th>
<th>Vocational skills; enterprise education; understanding employers’ needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivering excellent public services</td>
<td>Cross-departmental working and user accessibility</td>
</tr>
<tr>
<td>Building stronger safer communities</td>
<td>Anti-social behaviour; youth crime and disorder,</td>
</tr>
<tr>
<td>Revitalising our democratic frameworks</td>
<td>Year’s free music education; youth participation</td>
</tr>
<tr>
<td>Sustainability (crosscutting theme)</td>
<td>Rural schools; environmental education</td>
</tr>
<tr>
<td>Closing the gap</td>
<td>Child poverty; childcare; modern</td>
</tr>
</tbody>
</table>
8. National Education Priorities:

<table>
<thead>
<tr>
<th>Framework for Learning</th>
<th>CPD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values and Citizenship</td>
<td></td>
</tr>
<tr>
<td>Learning for Life</td>
<td>Creativity and ambition</td>
</tr>
</tbody>
</table>

9. Other areas potentially missing targets:

- early years
- recruitment of social workers
- PPP
- initiative funding
- research spend
- value for money indicators (e.g. administrative spend as a % of total spend)
- class sizes
- ratio of adults to children in the classroom
- quality of teaching

10. A similar issue to that of the transparency of local authority expenditure arises in relation to the National Priorities Action Fund (NPAF), which makes up 31% of the £407 million budget under the control of the EYP department. As none of the eleven targets relate to the initiatives funded under this scheme, the Committee is unable to monitor the growing percentage of funding allocated under the NPAF. The Finance Committee’s adviser has previously noted this trend and stated that it “… seems to run contrary to the wider commitment to reduce specific grant funding to local authorities” (Finance Committee 4th Report 2003 p.24).

Recommendation 2: This Committee welcomes the NPAF in principle as a vehicle for allowing local education authorities and the Executive to work more closely together to improve the educational experience of children/young people, but wishes to see further transparency of objectives and performance of the various initiatives funded under the NPAF.

Progress Against Targets

11. The Committee recognises that designing effective targets is challenging but found that the evidence within the AER to support the conclusion drawn that most targets were “on course” was variable. For example, the AER suggests that the Executive is on course on target 3 for increasing the number of children in Gaelic-medium education by at least 5% each year on 2003-04 figure. However, the baseline is 2003-04, and therefore it is impossible to actually report progress (or lack of it) against this target. Appendix 3 provides further detailed commentary on progress against the eleven targets. The Committee appreciates that this is the
first year that the AER has been produced as an evaluative document and guidance appears to have been issued limiting the length of departmental contributions. Nevertheless, the Committee would recommend that in future, more detail is provided in terms of interim milestones achieved in order to underpin and evidence the judgement that a target is “on course”. The Minister has explained that some milestone data is in development, although there are complex issues arising. The Committee believes that milestones provide a measurement of progress made and reduce the risk of failure to meet targets, and therefore that additional milestone data would assist the Committee in its duty of scrutiny.

12. It should be noted that the draft 2004-05 budget provided milestones. The AER does not describe progress against the 2003-04 milestones, although this may be intended for a later stage of the process. Only some of the milestones provided in the AER actually relate to outputs and outcomes: some relate to administrative tasks associated with the collection and dissemination of information: for example, the milestones for Target 4 (attendance) refer only to publishing the relevant data. There are also no milestones in some cases beyond 2003-04: for example target 3 (Gaelic education).

Recommendation 3: That interim milestones be identified and data is placed in the public domain as it becomes available. Particular areas where the Committee feels more milestones would be beneficial are as follows:

- in relation to the implementation of the McCrone agreement
- teacher numbers e.g. uptake of teacher education places in HEIs; drop-out during the course; drop-out within the first five years of entering the profession
- social worker numbers
- child protection: progress on integrated care plans
- building and refurbishing schools
- introducing the new community and health-promoting school approach

Funding Issues

13. Although this issue is raised above, it is worth reiterating that there is as yet no real link between the targets and the budget data provided. The Committee therefore cannot tell whether appropriate resources have been allocated to each target. This makes it difficult to decide which targets should be realigned during periods of funding constraint, and which are a good investment for new funds arising during the year.

14. The AER includes many movements between budget headings as well as injections of new funds. For example, the £113m identified in the AER includes both new money and transfers from other Education or other departmental budgets. Following questioning, the Executive provided a helpful and useful clarification of some details (see minute in Appendix 4). However, the Committee stresses that where budgetary movements are undertaken and presented in the AER they must be accompanied by a clear explanation and a statement of the underlying trends. Such information would greatly improve the Committee’s ability to scrutinise budgetary decision-making.
15. The Committee does not feel that the AER in its current form provides sufficient information for the Committee to be able to recommend which areas should be cut back, protected from budgetary stringency, or be the subject of further investment for any re-aligned funds, as it is being asked to consider by the Executive and by the Finance Committee. In evidence, the Minister stated that discussions on these topics were ongoing and that he therefore felt unable to offer detailed advice or opinions at this stage. He also told the Committee that most of the budgets went on areas where costs were fixed and so the potential to influence spending decisions was marginal. In this respect, we note the Finance Committee’s guidance which tacitly agrees that there is little scope to influence resourcing decision to 2005-06, and therefore asks Committees to consider their priorities for the period to 2007-08.

Recommendation 4: If the Committee is to perform fully its scrutinising function and, if appropriate, make specific funding recommendations, it would ideally require the following sorts of information, either in the Stage 2 of the budget process or earlier if available:

- budget forecasts and targets which extend to 2007-08
- information on which costs are fixed, e.g. because they relate to salaries, and which costs are more flexible
- option analysis e.g. “what would be the impact of increasing or decreasing the budget 1 %, 2% or 5%?”
- a complete explanation of the increases and decreases in the various budget heads: i.e. is there additional money or just movement of money?
- trend data
- figures comparing actual spend to original budget (since an overspend might imply a need for more funding)
- additional data on spend conducted through local authorities
- transparency on individual initiatives

Responses to Scottish Executive Questions

16. The Executive has asked for responses to the following questions and the Education Committee’s responses are given below for each question:

17. *Are the priorities set out in the introduction to the Annual Evaluation Report (AER) the right ones?*

The Executive’s new cross-cutting priorities are sufficiently wide to encompass most strategic activities but will be difficult to match with budget spend: this may have potential consequences for accountability. The Committee is unable to assess whether SEED is doing all it can to support those priorities.

18. *Are the targets for individual portfolios the right ones, or how could they best be improved?*

The Committee agrees with the Minister that the existing eleven targets should remain in place until the end of the 2005-06 cycle for the sake of continuity, even though it remains to be convinced that the ‘suite’ of targets forms a comprehensive
and coherent whole that support either the National Education Priorities or the Executive’s new strategic priorities. Although the Committee does not wish to see an increase in the total number of targets set, it believes that, in order to complement the new priorities to the full, SEED may need some more appropriate reporting in some areas. The Committee would welcome reassurance that the targets can all be achieved and believes that additional milestone data would enhance the targets in this respect.

19. Are there any areas where the Committee considers there is scope for savings or efficiencies?

The Committee finds it impossible to answer this question with the information currently available to it. It urges the department to consider the utility of scenario analysis in establishing its priorities in discussion with the Committee.

20. What are the priorities for any realigned funding?

The Committee finds it impossible to answer this question with the information currently available to it and given the fact that its work programme has, to date, precluded it from undertaking its own background research. However, the Committee may take evidence from the department on this matter as soon as the department has completed its own assessment. The Committee notes that its ongoing inquiry into child protection may reveal significant funding pressures in this critical area. In his evidence, the Minister suggested he might look favourably on continued investment in Additional Support for Learning, school leadership, the teaching of creativity and measures that promote inclusion. The Committee is not clear at this time whether such decisions are made solely on a policy basis, or whether full consideration has been given to value for money for the investment, and it will be examining the proposals made by the department with this in mind.

Responses to Finance Committee Questions

The guidance from the Finance Committee asks the following specific questions, some of which overlap with the Executive’s questions (see paragraphs 17-20 above).

22. Is the Committee satisfied that progress has been made over any outstanding issues made in its recommendations last year?

The Committee expresses its disappointment with the progress made on its recommendations of last year. Last year the Committee asked for:

- Stronger links between strategic targets and budgets
- More detail. This particularly referred to the National Priorities Action Fund, Additional Support for Learning, Social Work Training and the Changing Children’s Services’ Fund
- More cross-departmental cost collection on matters such as youth organisations and Gaelic education
- More information on relevant GAE expenditure
- More information on the application of End-Year Flexibility funding
- More research on trends in expenditure
Moreover, the Committee notes that its Stage 1 report from the 2003-04 budget process, two years ago, raised very similar points of concern, such as:

- Funds being moved around without explanation
- The use of ring-fenced funds without outcome indicators or sharing of the lessons learned
- The deleterious effect that the practice of investing new funds as they arise throughout the year is having on schools’ ability to forward plan

Therefore, the Committee believes that insufficient progress has been made on its recommendations from both 2002 and 2003 and hopes to see additional detail on these matters in the Phase 2 report.

23. **In the context of the 2005-06 budget, does the Committee wish to recommend any realignment of resources within the Departmental Expenditure Limit (DEL)?**

The Committee finds it impossible to answer this question with the information currently available to it. The Committee may wish to take further evidence from the department on this matter as soon as the department has completed its own assessment which we understand may be before the Stage 2 report is issued.

24. **In the context of the forthcoming Spending Review, which is expected to provide for a lower rate of growth in real terms than SR2002, which programme(s) should be given priority in the allocation of resources?**

The Committee finds it impossible to answer this question with the information currently available to it. The Committee may wish to take further evidence from the department on this matter as soon as the department has completed its own assessment which we understand may be before the Stage 2 report is issued.

25. **As the Executive’s budget strategy has been extensively revised and focused on crosscutting themes, the Committee’s view on this approach and its relevance to its responsibilities would be welcome. In short, is the Committee content with the new strategy?**

The Committee supports cross-cutting themes but notes that they will be difficult to match with budget spend, which may have potential consequences for accountability. It looks forward to hearing the Executive’s proposals for further development of this approach.

26. **The performance reporting material sets out progress so far against portfolio targets. How does the Committee view that progress; does it consider the targets are challenging enough and are they appropriate; and does it feel there are any gaps in the targets?**

The Committee believes there is sometimes insufficient evidence to support the conclusion that progress is ‘on course’ for most targets. As noted, the Committee would like to see additional reporting milestones put in place to engender confidence that the department is indeed “on course” to deliver these targets, and would also like to see more appropriate targets in specific areas.
27. **What written evidence is available to the Committee in making its recommendations, and from which individuals and organisations did it take evidence?**

The Committee has, at this stage, taken evidence only from the Minister and selected officials.
<table>
<thead>
<tr>
<th>The Executive’s objectives</th>
<th>How the Education &amp; Young People portfolio contributes to these objectives</th>
<th>Missing targets</th>
<th>Reference to existing targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Growing the economy</td>
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<tr>
<td>Improving the infrastructure</td>
<td>This relates to transport links and to electronic connectivity. Education only plays a minor role in supporting this objective, through the roll-out of school IT (covered under “Investing in Assets” below).</td>
<td></td>
<td>Target 8 – the completion of 200 new/ refurbished schools by 2006</td>
</tr>
<tr>
<td>Developing skills and enterprise</td>
<td>Education contributes to this objective by increasing attainment, by enabling school pupils to develop vocational skills and by undertaking a programme of enterprise education in schools.</td>
<td>There are targets only about attainment: should there also be specific targets about vocational skills and enterprise education? (Although a review group on Education for Work &amp; Enterprise produced ‘Determined to Succeed’ in December 2003).</td>
<td>Targets 10 and 11 address attainment. Target 7 (reducing class sizes in S1 and S2 Maths and English and increasing the number of specialists working across the secondary/primary boundary) will also support attainment.</td>
</tr>
<tr>
<td>Targeted support for business and manufacturing</td>
<td>The main way Education will contribute is by ensuring business and manufacturing have a ready supply of school-leavers with the core and vocational skills they need.</td>
<td>To what extent does/ should the department liaise with Futureskills to ensure that it properly understands employers’ needs? At the moment, the targets arguably do not tie in directly with demand, but focus on supply.</td>
<td>Targets 7, 10 and 11 will help ensure core skills and other skills are available to employers.</td>
</tr>
<tr>
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<td>How the Education &amp; Young People portfolio contributes to these objectives</td>
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<tr>
<td>2. Delivering excellent public services</td>
<td>Investing in assets</td>
<td>Education contributes to this priority via the largest school building programme in Scotland’s history, renewing 200 schools by 2006.</td>
<td>Target 8 – the completion of 200 new/refurbished schools by 2006</td>
</tr>
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<td></td>
<td>Investing in people</td>
<td>Education will contribute through an increase of teacher numbers to 53,000 by 2007. It will also implement the McCrone agreement.</td>
<td>Target 6 – implementing McCrone Target 7 – an increase in teacher numbers</td>
</tr>
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<td></td>
<td>Reform and modernisation</td>
<td>Education supports this priority through the development of schools inspection in the context of the National Priorities for Education and through the devolution of 90% of school budgets to head teachers.</td>
<td>What else could SEED do under this heading e.g. working groups that cross structural boundaries between public services? Increased user-friendliness of the service? Increased access to data (under the Freedom of Information Act)? Increased opportunities for user involvement and feedback? What additional targets might we therefore need? Target 1 – providing an integrated package of care for all vulnerable children Target 6 - implementing McCrone</td>
</tr>
<tr>
<td>3. Building stronger, safer communities</td>
<td>The AER signals a strategic imperative, backed by funding, to address anti-social behaviour, youth crime and disorder and persistent offending, all of which may be said to be issues for this Committee.</td>
<td>While Target 2 addresses persistent offending, there are no targets to underpin the new strategic drive to overcome anti-social behaviour and youth crime and disorder. How is responsibility for delivery on these issues shared with Justice and Communities?</td>
<td>Target 2 – reducing the number of persistent young offenders</td>
</tr>
<tr>
<td>The Executive's objectives</td>
<td>How the Education &amp; Young People portfolio contributes to these objectives</td>
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<tr>
<td>4. Revitalising our democratic frameworks</td>
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<tr>
<td>Culture</td>
<td>By 2006, every primary school pupil in Scotland will be able to benefit from a year's free music tuition.</td>
<td>Should there be a specific target relating to this objective?</td>
<td>Target 3 – increase % in Gaelic medium schools</td>
</tr>
<tr>
<td>Promoting Scotland</td>
<td>The Education and Young People portfolio does not contribute to the delivery of this objective, which relates to tourism.</td>
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<tr>
<td>Improving governance and participation</td>
<td>The AER states “We are developing a gap year volunteering scheme for young people, which will together with our support for Young Scot, the Scottish Youth Parliament and Youth Link, encourage their more active involvement in the lives of their communities and wider society”.</td>
<td>Should SEED have a specific target relating to youth participation and engaging disaffected/youth at risk?</td>
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<tr>
<td>5. Cross-cutting themes</td>
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<tr>
<td>Sustainability</td>
<td>This objective relates to environmental and transport themes. Local authorities have been charged with contributing to the achievement of sustainable development by the new Best Value duty in the Local Government in Scotland Act 2003. This would include schools. It does not appear necessary for the Education and Young People portfolio to have targets in this area.</td>
<td>Possible target – embedding knowledge of sustainability into the Environmental Studies curriculum?</td>
<td></td>
</tr>
<tr>
<td>The Executive’s objectives</td>
<td>How the Education &amp; Young People portfolio contributes to these objectives</td>
<td>Missing targets</td>
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<tr>
<td>5. Cross-cutting themes (cont.)</td>
<td>Emphasis is given within the AER under this heading to the issues of: 1. Child poverty 2. Childcare 3. Modern Apprenticeships 4. Business start-ups by young people 5. Education Maintenance Allowances (to encourage continued attendance and attainment at school) 6. Improved services for children leaving care 7. Youthwork 8. Sure Start Scotland 9. The Changing Children’s Services Fund 10. The rollout of the Integrated Community School 11. Working for the support of the 100,000 children who experience domestic abuse; and 12. The delivery of integrated children’s services, for support, learning and health.</td>
<td>Of these issues, existing targets number 10 - community schools (existing target 9) and number 12 – integrated children’s services (existing target 1) are relevant. Should there therefore be targets about these other specific issues?</td>
<td>Target 1 – providing an integrated package of care for all vulnerable children  Target 4 – increasing attendance  Target 5 – improving take-up and content of school meals  Target 9 – rollout of Integrated Community Schools</td>
</tr>
<tr>
<td>Value for money</td>
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<td>We have no targets relating to value for money, but it is a principle behind every spending decision.</td>
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<tr>
<td>Other existing targets</td>
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<td>Target 3 – increasing the number of children in Gaelic medium education</td>
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<tr>
<td>National Priority</td>
<td>Outcomes</td>
<td>Existing Scottish Executive Target</td>
<td>Other suggested performance measures and quality indicators from the National Priorities</td>
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</table>
| Achievement and Attainment        | Increased levels of numeracy and literacy.                                | Target 7 (reducing class sizes in S1 and S2 Maths and English and increasing the number of specialists working across the secondary/primary boundary) | • 1.1.A - % of the combined P3, P4, P6 and P7 rolls attaining or exceeding the appropriate 5-14 level for their age in reading, writing and mathematics.  
• 1.1.B - % of S2 attaining or exceeding Level E in reading, writing and mathematics by the end of S2.  
• 1.1.C - % of original S4 cohort who, by the end of S6, have attained SCQF level 3 or better in both English and Maths.  
• 1.1.D - % of schools which have met their IEP targets. |
| Improved examination results (or other measures of achievement) | Targets 7, 10 and 11 as above                                             |                                                                                                      | • 1.2.A - % of the original S4 cohort who, by the end of S6, have attained 5 or more awards at SCQF level 3 or better.  
• 1.2.B - % of the original S4 cohort who, by the end of S6, have attained 5 or more awards at SCQF level 4 or better.  
• 1.2.C - % of the original S4 cohort who, by the end of S6, have attained 5 or more awards at SCQF level 5 or better.  
• 1.2.D - % of the original S4 cohort who, by the end of S6, have attained 1+ or more awards at SCQF level 6.  
• 1.2.E - % of the original S4 cohort who, by the end of S6, have attained 3+ or more awards at SCQF level 6.  
• 1.2.F - % of the original S4 cohort who, by the end of S6, have attained 5+ awards at SCQF level 6.  
• 1.2.G - Quality indicator 2.1 from How good is our school? - Overall quality of attainment.  
• 1.2.H - Quality indicator 5.2 from How good is our school? - Expectations and promoting achievement. |
<table>
<thead>
<tr>
<th>National Priority</th>
<th>Outcomes</th>
<th>Existing Scottish Executive Target</th>
<th>Other suggested performance measures and quality indicators from the National Priorities</th>
</tr>
</thead>
</table>
| Framework for Learning | Continuing professional development of teachers’ skills. | No target | • 2.1.A - New indicator of Continuous Professional Development (CPD) is still in development, in the light of CPD Framework.  
• 2.1.B - Quality indicator 6.6 from How good is our school? - Staff review and development. |
|                    | Increased self-discipline of pupils. | Target 4 - attendance | • 2.2.A - Levels of attendance  
• 2.2.B - Number of days lost per 1000 pupils through exclusion.  
• 2.2.C - Number and % of pupils participating in buddyng, mentoring or similar schemes.  
• 2.2.D - Quality indicator 5.1 from How good is our school? - Climate and relationships. |
|                    | Enhanced school environment s which are more conducive to teaching and learning. | Target 8- new schools and Target 9 – community schools | • 2.3.A - Pupil/adult ratio in primary schools.  
• 2.3.B - % of schools (primary and secondary schools separately) classified as Health Promoting Schools (under development).  
• 2.3.C - % schools (primary and secondary schools separately) with a quality award or applying a quality model.  
• 2.3.D - Quality indicator 6.1 from How good is our school? - Accommodation and facilities. |
| Inclusion and Equality | Every pupil benefits from education. | Target 4 - attendance, Target 5 – school meals and Target 9 – community schools | • 3.1.A - Number and % of "looked after" young people leaving care who have attained SCQF level 3 or above in English and Maths.  
• 3.1.B - The average tariff score of the lowest attaining S4 pupils in the authority.  
• 3.1.C - % of pupils who are entitled to free school meals and % who take them up.  
• 3.1.D - Quality indicator 5.3 from How good is our school? - Equality and fairness. |
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Inclusion and Equality</td>
<td>Every pupil benefits from education, with particular regard paid to pupils with disabilities and special educational needs.</td>
<td>Target 1 Integrated care packages for vulnerable children</td>
<td>• 3.2.A - A measure on access to education for pupils with disabilities is in development.</td>
</tr>
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<td>(cont.)</td>
<td></td>
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<td>• 3.2.B - Breakdown of placement of primary and secondary school pupils with SEN (special unit, mainstream etc.) by proportion of time spent there.</td>
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<td>• 3.2.C - Quality indicator 4.5 from How good is our school? - Learning support.</td>
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<td>• 3.2.D - Quality indicator 4.6 from How good is our school? - Implementation of legislation relating to special educational needs and disabilities.</td>
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<td>• 3.2.E - Quality indicator 4.7 from How good is our school? - Placement of pupils with special educational needs and disabilities.</td>
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<tr>
<td>Values and Citizenship</td>
<td>Every pupil benefits from education, with particular regard paid to Gaelic and other lesser used languages.</td>
<td>Target 3 – Gaelic education</td>
<td>• 3.3.A - The number and % of written requests for Gaelic medium education met within the authority or elsewhere.</td>
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<td></td>
<td>Increased respect for self and others.</td>
<td></td>
<td>• 4.1.A - % of pupils in original S4 cohort who achieved the core skill &quot;working with others&quot; in the new NQ framework, by the end of S6, at levels 3, 4, 5 and 6.</td>
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<td>• 4.1.B - Quality indicator 4.2 from How good is our school? - Personal and social development.</td>
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<tr>
<td>National Priority</td>
<td>Outcomes</td>
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</tbody>
</table>
| Values and Citizenship (cont.) | Increased awareness of interdependence with other members of their neighbourhood and society and increased awareness of the duties and responsibilities of citizenship in a democratic society. | No target | • 4.2.A - A measure on links between schools and the local community is in development, and will reflect the recommendations of the Community Planning Taskforce.  
• 4.2.B - % of pupils in original S4 cohort who achieved the core skill "communication" in the new NQ framework, by the end of S6, at levels 3, 4, 5 and 6.  
• 4.2.C - % of schools participating in the Eco Schools award or similar accredited environmental award.  
• 4.2.D - A measure on citizenship is in development.  
• 4.2.E - Quality indicator 5.4 from How good is our school? - Partnership with parents, the School Board and the community. |
| Learning for Life | Pupils are equipped with the necessary foundation skills, attitudes and expectations to prosper in a changing society. | Target 7 (reducing class sizes in S1 and S2 Maths and English and increasing the number of specialists working across the secondary/primary boundary)  
Target 9 – community schools/health promoting schools  
Target 10 – attainment  
Target 11 – reduction in failure to achieve | • 5.1.A - % of original S4 cohort who achieved the core skills of "(1) IT and (2) problem solving", in new NQ framework by the end of S6 at levels 3, 4, 5 and 6.  
• 5.1.B - % of school leavers destined for employment, training, education (higher and further) and other.  
• 5.1.C - Proportion of pupils (Primary: from P1 to P7, Secondary: from S1 to S6) participating in cultural, sporting and learning activities outside the core curriculum.  
• 5.1.D - Quality indicator 3.3 from How good is our school? - Pupils' learning experiences.  
• 5.1.E - The Physical Activity Taskforce to recommend a measure reflecting the range and provision of physical activity, including sport, offered by schools.  
• 5.1.F - Range of education for work and enterprise activities offered to pupils (Primary: P1-P7, Secondary: S1 to S6) |
| | Increased levels of creativity & ambition in young people. | No target | No measure yet |
Target 1: By 2006, ensure that at least 15,000 vulnerable children under five, every looked after child, every pupil with special educational needs and every child on the child protection register have an integrated package of health, care and education support which meets their needs.

The Executive states that it is on course to meet this target. However, it advises that the figure of 15,000 is in fact an overestimate of the number of vulnerable children under five, so in numerical terms it cannot be met. This could mean that the implied target is simply that “every child that needs one” should have an integrated package of care. However, the Executive’s statement does not quantify progress to date against this target; therefore it is impossible to tell whether SEED are on course to meet it. Nor is it clear whether an integrated package of care has yet been defined.

Target 2: By 2006, the number of persistent young offenders will be 10% less than in 2000-01.

The Executive states that the baseline and progress data is not yet available to report on this target.

Target 3: Increase the number of children in Gaelic-medium education by at least 5% each year on the 2003-04 figure.

The Executive states that it is on course to meet this target. However, the baseline is 2003-04, so it is not actually possible to report progress or lack of it.

Target 4: By 2006, reduce the gap between the average attendance levels in schools serving areas of high and low deprivation by 10%, and by another 10% by 2008.

The Executive states that it is on course to meet this target “although the gap is reducing much faster in secondary schools (17.7%) than primary schools (2.8%). However, it is not clear why this should be the case, as rates of truancy are higher in secondary schools.

Target 5: By 2006, increase the nutritional value and presentation of school meals and increase take-up, especially among pupils eligible for a free school meal.

The Executive states that it is on course to meet this target. However, it has provided no interim performance data on take-up. In terms of nutritional value, there are no target numbers to measure against, for example “to reduce % fat per serving from 33% to 25%”. It is not clear how an increase in presentation could be defined and measured, so this may not be a particularly effective target. Something about customer satisfaction, involving surveys, might be better. (N.B. SEED is in the process of commissioning a research project which would establish a baseline).

Target 6: Full implementation of the national agreement on teachers’ pay and conditions (A Teaching Profession for the 21st Century) by 2006.

The Executive states that it is on course to meet this target and provides sufficient detail to make the case that it is. However, there may be a need for some more milestones between 2004 and 2006, in order to avoid a loss of focus and potential risk to full delivery in 2006 (ref. draft budget and technical notes).

Target 7: Ensure teacher numbers have increased to 53,000 by 2007 and target these additional teachers on reducing class sizes to a maximum of 20 in S1/S2 Maths/English and 25 in P1 and increasing the number of specialists working across the boundary between secondary and primary.
The Executive states that it is on course to meet this target. However, it does not provide sufficient backing information for this statement. For example, how many additional teachers are in training/being recruited and when will they come on stream? Also it states that “Commitments on class size reductions in S1/S2 are highly challenging” which suggests a risk that this target is not on course. The school census data includes information on class size which would have been useful to include here.

**Target 8: Provision of a modern, high quality learning environment through the completion of 200 either new or substantially refurbished schools by 2006, rising to 300 by 2009.**

The Executive states that it is on course to meet this target. Again there are no reports against milestones to substantiate and evidence that statement - i.e. how many schools have been completed or refurbished to date?

**Target 9: Rollout of the new community school and health promoting school approach across every local authority by 2006 and to every school by 2007.**

The Executive states that it is on course to meet this target and that the integrated community school approach, including elements of the health promoting school approach, has so far been introduced into 1,000 out of 2,833 schools (2,258 primaries, 386 secondary and 189 special schools/units in 2002 School Census). The report on the initial pilot of the community schools is not encouraging and the commissioning of the evaluation of the next stage of the ‘roll out’ of NCSs has been postponed, which causes the Committee to question whether this target should remain in place

**Target 10: Increase by at least 5% the proportion of pupils achieving expected 5-14 levels relevant to their stage in primary and secondary school, and at least five passes at SCQF level 5 (or better) by the end of S6, by 2006.**

The Executive states that it is on course to meet this target, and have already achieved the first half.

<table>
<thead>
<tr>
<th>Pupils achieving expected 5-14 levels</th>
<th>% achieving 5 SCQF level 5 passes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline 1999-2001</td>
<td></td>
</tr>
<tr>
<td>Primary: 76%</td>
<td>41%</td>
</tr>
<tr>
<td>Secondary: 51%</td>
<td></td>
</tr>
<tr>
<td>Current figures 2001-03</td>
<td></td>
</tr>
<tr>
<td>Primary: 78%</td>
<td>46%</td>
</tr>
<tr>
<td>Secondary: 55%</td>
<td></td>
</tr>
<tr>
<td>Increase achieved (Goal is 5% by 2006)</td>
<td></td>
</tr>
<tr>
<td>Primary: 2%</td>
<td>5%</td>
</tr>
<tr>
<td>Secondary: 4%</td>
<td></td>
</tr>
</tbody>
</table>

*N.B. for information, the table below shows how the various qualifications fit together:*

**The Scottish Credit and Qualifications Framework**

<table>
<thead>
<tr>
<th>SCQF level</th>
<th>Schools</th>
<th>Schools and Colleges</th>
<th>Colleges and Universities</th>
<th>Workplace (Scottish Vocational Qualifications)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td></td>
<td></td>
<td>Doctorate</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td>Masters degree</td>
<td>SVQ 5</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td>Honours degree</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td>Ordinary degree</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td>HND/Diploma of Higher Education</td>
<td>SVQ 4</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>Advanced Higher</td>
<td>HNC/Certificate of Higher Education</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>Higher</td>
<td></td>
<td>SVQ 3</td>
</tr>
</tbody>
</table>
The AER notes that the forthcoming review of the curriculum will require an alteration to this target and to target 11. It is also the case that the bottom-up process of priority-setting from schools will shortly feed into, and probably alter, these targets.

**Target 11: Reduce by at least 15% the proportion of pupils failing to reach level C in P7, level D in S2, and five passes at SCQF level 4 (or better) by the end of S6, by 2006.**

The Executive states that it is on course to meet this target. However, the picture it reports is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Primary 7</th>
<th>S2</th>
<th>SCQF Level 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction achieved as at 2003</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Total reduction required by 2006</td>
<td>17.5%</td>
<td>15.4%</td>
<td>20%</td>
</tr>
</tbody>
</table>

This means there is a lot to do in the next three years. It is true that the pattern should be one of a slow beginning and a geometric improvement, as new initiatives bed down, but some more interim milestones between now and 2006 might help the Committee see and monitor that progress.
Further to your email of 5th May 2004, I have collated the responses to the questions posed by the committee. They are shown in Q & A format below:

**Q1.** It appears from Table 0.02 in the AER that there is to be an increase in real terms of £113m in education spending. Please could you provide a breakdown of this figure, showing how it is made up and how transfers from other departments contribute to the total?

**A1.** The breakdown of figures for Table 0.02 is that shown at Table 3.01 (with attendant footnotes) with the calculation detailed in the paragraph headed Spending Plans on page 10 applied.

**Q2.** Why is local government revenue spending on education set to increase from £5m in 2003-04 to £108m in 2005-06 (AER Table 11.02, p.87)?

**A2.** Funding shown here represents strands of revenue expenditure which will eventually be delivered to local authorities through central government funds. These are, Schools PPP £5/10/100m and Teachers Induction Scheme £0/9.5/8.5m

**Q3.** There seems to be a trend for more initiative funding coming from the Executive as opposed to revenue funding. What is the rationale behind that?

**A3.** While Ministers may wish to continue to direct new funding to achieve specific outcomes, in practice such funding tends to move into mainstream revenue funding over time as the activity funded by the money becomes mainstream. See for example the transfer of £64 million from the National Priorities Action Fund to GAE last year. As explained at the meeting of the committee, we are also looking at ways further to simplify funding streams for local authorities, in particular the various strands within the National Priorities Action Fund.

**Q4.** It appears that, under the Schools heading (p29 of the AER) there is a transfer of £50m from Revenue Support Grant to PPP. Is this new money going into PPP?

**A4.** No. This represents the formalisation of decisions taken at SR2002 and will be incorporated into the Schools Fund which covers existing costs associated with maintaining the schools estate as well as new build.

**Q5.** The National Priorities Action Fund receives an increase of £31m, of which £21m appears to have been transferred from the Pupil Support and Inclusion budget to pay for the nutrition in schools initiative. Does this represent new money?
A5. No. This is funding agreed as part of SR2002 and transferred to the NPAF to take advantage of the allocation infrastructure of that Fund.

Q6. Does the transfer, referred to on page 29 of the AER, of £15m from the Health portfolio to the Changing Children's Services fund represent a reduction in children's health funding?

A6. No. This represents the centring of funds spent in this area into one outlet for ease of administration.

Q7. Please could you explain the increase of £44m in the teachers' budget (Table 3.01 AER)?

A7. The increase here results from decisions taken as part of the Partnership Agreement for a Better Scotland and will be channelled towards additional teachers and support staff.

Q8. What does the transfer of £13m from Qualifications, assessment and curriculum to "address known pressures" (AER p 29) represent? Is it related to the SQA?

A8. Yes. For technical reasons this was transferred out of Qualifications, assessment and curriculum at the time of going to press. However it will be set against the SQA.

Q9. Please could you provide detail of the plans for spending in the areas of additional support needs and support for teachers on behavioural issues in schools? (See Rosemary Byrne's question at col. 1299 of the Official Report.)

A9. The Executive is providing in the region of £50.4 million in the current year to education authorities: inclusion in mainstream and equality in special schools (£25m), staff development and training (£8.4m), and improved accessibility to the curriculum and facilities for pupils with disabilities (£17m). Ministers have also announced £12 million in 2004-05 to support implementation of the Additional Support for Learning Bill, and £14 million in 2005-06 for the first year of implementation.

Please let me know if any further information is required.

Donna Bell
Finance Education, Victoria Quay
Enterprise and Culture Committee

Report to the Finance Committee on Stage 1 of the 2005-06 Budget

The Committee reports to the Finance Committee as follows—

Introduction


2. The Enterprise and Culture Committee is responsible for scrutinising the Enterprise and Lifelong Learning budget (£2350.89m in 2003-04), and the Tourism, Culture and Sport budget (£206.06m in 2003-04).

3. In addition to scrutinising the Annual Expenditure Report targets, the Enterprise and Culture Committee agreed to focus in particular this year on the arts and sports sections of the budget.

4. To this end, the Committee wrote to a range of organisations involved in culture and sport with a series of questions. These are attached at Appendix A, together with a list of respondents. The written evidence received is available online at:

   http://www.scottish.parliament.uk/enterprise/inquiries/budget/ec04-seb-00.htm

5. The Committee also took oral evidence from sportsscotland, the New Opportunities Lottery Fund, the Scottish Arts Council and COSLA.

6. The Deputy First Minister and Minister for Enterprise and Lifelong Learning, and the Minister for Tourism, Culture and Sport gave evidence to the Committee on 27 April 2004.
PART ONE: SPORT AND ARTS BUDGETS

GENERAL

Impact and implications of declining lottery funding

7. sportscotland told the Committee that ‘Lottery income for sport in Scotland has dropped from a peak of £32 million in 1998 to around £18 million and that it is highly unlikely that we will be able to maintain current levels of investment beyond 2007.’\(^1\) The Scottish Arts Council’s submission detailed a similar decline in lottery funding.

8. Both sportscotland and the Scottish Arts Council highlighted the benefits that Lottery funding has brought to their sectors: ‘Lottery funds opened up huge possibilities for the arts. It provided a capital fund for buildings and equipment and supported a much wider range of arts activity than could ever be possible with Scottish Executive funds only.’\(^2\)

9. Whilst the Committee recognises that there is no way to predict lottery income, and that efforts to maintain or increase it are outwith the purview of Scottish Ministers, members consider that an effective response to the decline in funds is probably the single most important funding issue for this budget.

10. The Committee recommends that the budget documentation for Stage 2 of the 2005-6 process sets out clearly Scottish Ministers’ response to declining lottery funding.

11. Lottery grants were initially envisaged as providing capital funding or time-limited project funding. The rules have since relaxed and some embedded work, eg the Scottish Institute of Sport, is now funded from the Lottery. Given the decline in funding noted above, there must be question marks about the future funding of such initiatives.

12. The Committee is also concerned to note that, on occasion, interest stimulated by project funding cannot be satisfied in the longer term.

13. The Committee recommends that exit-planning and/or sustainability audits should form part of the early planning for all lottery-funded projects.

14. The Committee was pleased to hear that both sportscotland and the Scottish Arts Council were seeking to work across departments within the Executive to pool resources to support arts and sport. There are obvious opportunities to work with Health and Communities Departments’, exploiting the potential for arts and sport to bring wider benefits to individuals and society.

15. The Committee notes that sportscotland seems to have done more work in this area, and considers that there may be opportunities for the NDPBs to share practice.

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\(^1\) sportscotland, written submission

\(^2\) Scottish Arts Council, written submission
16. The Committee notes that the New Opportunities Fund is shortly to be merged with the Communities Lottery Fund to create the Big Lottery Fund. The Committee welcomes the fact that there will be a Scottish Committee for this fund.

17. **The Committee recommends that sportscotland and the Scottish Arts Council should continue to work with partners in the Big Lottery Fund and Executive departments to seek maximum funding for sport and the arts in Scotland.**

**Facilities**

18. The Committee heard from COSLA that there had been some problems in securing access to school arts and sports facilities for the wider community. In some instances, these problems were related to Public/Private Partnership contracts which had not initially included the provision of such access.

19. The Committee welcomes the developments indicated by COSLA’s view that many of these problems have been addressed by local partnerships and solutions. **The Committee considers that there may be a role for the Executive in ensuring future PPP developments have broad community access written into contracts at an early stage.**

**Partnership**

20. All the witnesses seen by the Committee acknowledged the need for good partnership working to deliver services. Whilst the written evidence received from some on-the-ground organisations did not quite reflect the optimism of the NDPBs, it seems clear that such work is becoming more common. The Committee looks forward to evaluating the effectiveness of such work in the future.

21. COSLA had particular views about the need for subsidiarity and local decision-making. Its representatives told the Committee: ‘It is interesting to note that the New Opportunities Fund has developed some different ways of dealing with lottery programmes, such as giving allocations to agencies that work more locally, which allows a more strategic but flexible approach to be taken locally.’ The Active Schools Programme was cited as an example ‘where earlier discussion may have led to a less inflexible and more creative approach to programme delivery.’

22. **The Committee considers that there may be merit in exploring such a ‘regional allocation’ approach for some types of funding, to allow local decision-making and delivery of funding, although there is clearly a need to retain a national overview and flexibility to stimulate activity to meet overarching targets across the country.**

23. COSLA considered that there was a need to review the balance between national strategic and local administrative functions of the arts and sports NDPBs. Arts is of course the subject of the forthcoming Cultural Review, and the

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3 see, for example, Scottish Sports Association written submission
4 Official Report, 20 April 2004, col 891
5 COSLA, written submission
Committee expects that the role and functions of the Scottish Arts Council will be considered in this context.

24. COSLA also raised the issue of working relationships between local authorities and the NDPBs, stating that ‘We need to ensure that the national agencies engage not only with front-line staff who are involved in delivering local sports and arts programmes, but with chief executives and directors of education, for example, to consider the role that sport and the arts can play in the cross-cutting agenda and to consider resource issues within local authorities and the amount of attention that is being given to sport and the arts and how they can contribute to better health, lifelong learning and inclusion.’6

25. The Committee notes that SAC has recently increased its work with local authorities and voluntary agencies. The Committee considers that more work needs to be done in this area to build on success.

Cross-cutting funding

26. As noted above, the Committee welcomes the moves by sportscotland and the Scottish Arts Council to work across Executive departments to explore funding sources for sport and arts which will also contribute to wider objectives such as community cohesion, mental health etc. The Committee will look to Stage 2 of the budget process to see the development of such work.

27. The Committee recommends that Scottish Ministers clearly identify at Stage 2 of the budget process those areas of spending which cut across Executive departments.

SPORT BUDGETS

Infrastructure

28. The Committee heard a range of evidence suggesting that very large sums will be required to maintain current sports facilities in Scotland. sportscotland told the Committee that £540.22 million would be required over 20 years just to maintain swimming pools.7 Similarly, COSLA identified infrastructure as the single biggest issue for increasing participation in sport, which is a cornerstone of the Sport 21 agenda.

29. COSLA suggested in their written and oral evidence that the ‘Levelling the Playing Fields’ Lottery support for PPPs in schools should be extended to cultural and leisure facilities. sportscotland sounded a cautionary note, in that ‘the real challenge is to keep facilities open with a sustainable revenue tail that permits cash reserves to be built up for reinvestment.’8

30. Infrastructure has particular implications for equalities: the Scottish Women’s Budget Group told the Committee that ‘the majority of women used indoor sports

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7 Official Report, 27 April 2004, col 902
8 Official Report, 27 April 2004, col 903
facilities based in their local communities." Similarly, full implementation of the Disability Discrimination Act, due later this year, will have implications for upgrading facilities.

31. **The Committee recommends that Scottish Ministers strategically address ageing facilities, with particular reference to equalities issues, as part of the outcome of the Spending Review process.**

**National and Regional Facilities Strategy**

32. **sportscotland** told the Committee that ‘The strategy was never focused on rebuilding or reinvesting in existing facilities per se. It came about as a piece of work that focused on the gaps in provision.’ John Mason, Head of the Tourism, Culture and Sport Group at the Scottish Executive, told the Committee that: ‘Nothing was set out in the criteria [for the Strategy] for the bids about facilities having to be new or refurbished. It was down to bidders to make proposals for meeting need.’

33. This may indicate some confusion between the Minister and the NDPB; however the Committee considers that the key issue is the pressing need to ensure that Scotland has the right spread of facilities.

**Education**

34. The Committee notes that there is currently only one undergraduate course for Physical Education (PE) teachers in Scotland, at the University of Edinburgh, and one postgraduate course, at the University of Strathclyde. **sportscotland** noted that the introduction of the new school sports co-ordinators had led to difficulties in providing supply cover, and that problems with recruitment existed at both primary and secondary level. Student numbers for PE teaching courses are controlled by Scottish Ministers.

35. One approach to address these problems, taken by Clackmannanshire Council, has been to use ‘McCrone funding’ to recruit additional PE teachers.

36. **The Committee recommends that Scottish Ministers explore recruitment/retention issues for PE teachers with a view, if necessary, to expanding student numbers in that subject area.**

**ARTS BUDGETS**

**National companies**

37. The Committee notes that the Scottish Arts Council (SAC) has recently done more work to try to ensure that audiences for the national companies are increased and extended to currently under-represented sectors of the population. The Committee hopes that the establishment of a National Theatre will also contribute to this goal.

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9 Scottish Women’s Budget Group, written submission
10 Official Report, 27 April 2004, col 904
11 Official Report, 27 April 2004, col 910
38. The balance between funding for the national companies and the other kinds of work supported by the SAC is the subject of much current debate, and will form part of the Cultural Review. The Committee’s view is that, unless the balance of funding changes significantly (for example, by taking a strategic decision to support fewer national companies than currently exist) or total funding increases significantly, real change in the status quo will be difficult, if not impossible, to achieve.

39. The Committee notes the establishment of the Cultural Review, but considers that strategic funding decisions will continue to be necessary prior to its completion.

Disadvantaged communities

40. SAC told the Committee that ‘The lottery has brought cultural democracy through funding many community projects.’ As noted above, cessation of lottery funding, whether because of rules or because of declining availability of funding, can threaten this newly-stimulated activity.

41. The Committee has recently agreed a remit for an inquiry into Community Arts, and will feed its conclusions into the Cultural Review.

Bureaucracy

42. The Committee heard that the application processes for Lottery, sportscotland and SAC funding were cumbersome and time-consuming for both applicants and the bodies themselves. COSLA told the Committee ‘Local authorities had six months in which to consult, put together costed proposals and submit those proposals to the NOF. Some 20 months later, we still have not obtained all the funding for the projects that we proposed.’

43. The Committee does recognise that as applications will always exceed finite funding, there is a need to demonstrate that funding decisions have been made on adequate information. Equally, the Committee recognises that all the funding bodies from whom it took evidence are continuously looking to improve the application process, although in itself that can provide difficulties for organisations as the forms change each year.

44. The Committee notes that further improvements need to be made to streamline application processes and recommends that all funding bodies should work to improve and simplify such processes.

Education

45. The Committee was dismayed to hear that, although the Scottish Arts Council has an education strategy, ‘the resources that would enable us

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13 Official Report, 20 April 2004, col 891
immediately to implement that strategy and those aspects of the corporate plan are not there.\textsuperscript{14}

46. The Cultural Review will clearly need to take account of the importance of a sound education strategy for the arts in Scotland.

PART TWO: TOURISM, CULTURE AND SPORT ANNUAL EXPENDITURE REPORT

3-year core funding

47. The NDPBs are given indicative funding figures for three years ahead, to enable them to plan their expenditure effectively. The Committee recognises the benefits of this approach. At present, however, the NDPBs make annual or project-based allocations and 3-year allocations are not the norm.

48. The Committee considers that there would be several advantages in providing core funding on a 3-year basis. It would assist organisations to plan more effectively and could potentially free up staff resources to direct either to securing other sources of funding or directly to sport or arts provision on the ground.

49. The Committee recognises that there will continue to be a need for flexibility in funding, to enable funding bodies to respond to new priorities and address new needs. However, the Committee can see no reason why the benefits of 3 year core-funding allocations should not filter down to the various organisations funded by NDPBs.

50. The Committee considers that ‘3-year core funding allocations’ does not imply that organisations should receive the same, or indeed any, level of funding year on year with no scrutiny of effectiveness or outcomes. Rather, the Committee is clear that giving indications of future funding will assist organisations in their forward planning.

51. The Committee notes that the Executive is already committed to delivering, where appropriate, 3-year core funding for direct-funded voluntary bodies.\textsuperscript{15} This commitment was originally made in 1998. The Committee considers that implementation of a such a commitment to arts and sports bodies should be expedited.

52. The Committee recommends that Scottish Ministers should, as a matter of urgency, ensure that NDPBs make 3-year core funding allocations to the organisations they fund. The Committee considers that such allocations would assist stability and improve planning, in addition to enabling organisations to direct scarce resources directly towards provision.

\textsuperscript{14} Official Report, 20 April 2004, col 880

\textsuperscript{15} The Scottish Compact Good Practice Guides, http://www.scotland.gov.uk/library2/doc16/cgpg-02.asp
Area Tourist Board Review

53. The Committee notes the outcome of the Area Tourist Board review announced by the Minister earlier this year. The Committee is pleased to note that the costs of restructuring will be met from Executive funding which is neither in the existing tourism budget, nor from the additional marketing spend already allocated to VisitScotland.

54. The Committee will consider the policy implications of the Area Tourist Board Review in more detail later in the year.

Targets

55. The majority of targets are reported as being ‘on target’. It should be noted, however, that this relates to the collection of data, rather than the achievement of the targets themselves.

56. The Committee recommends that, in future, a reporting line of ‘On course to collect data’ or ‘No data yet available to measure progress’ would give a clearer picture of progress towards targets.

PART THREE: ENTERPRISE AND LIFELONG ANNUAL EXPENDITURE REPORT

‘Growing the Economy’: Executive priority

57. The Annual Evaluation Report 2005-06 states that ‘Growing the economy is our top priority.’ The Committee notes that the Enterprise and Lifelong Learning budget has increased by 7% between 1999-2000 and 2002-03, compared with an average increase across all budgets of 12.6%. The Committee previously raised this issue with the Deputy First Minister in October 2003.

58. The Committee recognises that the links between Executive spend and economic growth may not always be direct. Equally, the Committee recognises that spend in other areas, for example transport, will have a role to play in stimulating economic growth.

59. A piece of research commissioned by the Finance Committee, ‘Public Expenditure on Economic Development in Scotland’, states that both ‘primary’ and ‘support’ economic development spend have grown less quickly than other areas of the budget since devolution. The Deputy First Minister challenged that conclusion, referring the Committee to a 13% growth in the combined budgets of the Scottish Further Education Funding Council and the Scottish Higher Education Funding Council.17

60. The Committee does recognise that in this area as in others, a relatively small investment can make a relatively big difference. Equally, members note that Scottish Enterprise’s ‘business transformation’ programme is now beginning to deliver real cost savings which can be reinvested into business support.

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16 Annual Evaluation Report 2005-06, p1
17 Official Report, 27 April 2004, col 943
61. The Committee considers that it is reasonable to expect that, given the Executive’s priorities, spending on economic growth in all its aspects should be a significant priority across the Executive’s budget.

Targets

62. The Committee notes that there are not currently clear targets linking the Executive’s spend (regardless of department) with projected economic impact. The Committee further notes that the Executive uses three independent economic growth forecasters in determining its actions.\(^\text{18}\)

63. The Committee considers that there is scope for the Executive to make clearer the economic assumptions upon which it is basing its spend to promote growth, and that clear and more relevant targets should be identified.

64. The Committee notes that one target, that relating to Regional Strategic Assistance (RSA), has been subject to slippage. This is partly due to the fact that RSA is a demand-led budget. The Deputy First Minister also informed the Committee that the target for planned jobs created through this grant line has been exceeded (this target is not included in the AER).

65. Members noted that there was currently no target for reducing or streamlining business regulations, one of the key concerns of business and industry. The Committee recognises that the Improving Regulation in Scotland (IRIS) unit is funded from Executive running costs and so has no budgetary allocation within the Enterprise and Lifelong Learning budget. Nonetheless, this is the issue most frequently raised by business people and a higher profile target would be likely to be perceived as relevant to stimulating economic growth.

66. The Committee recommends that the Executive include a target on the operation of the IRIS unit in future budgets.

Higher Education

67. The target for participation in higher education is to ‘increase graduates as a proportion of the workforce’. The Committee explored with the Deputy First Minister whether there would be value in creating targets below that, specifically focusing on subject areas such as science and engineering, to promote study in those areas. The Committee does, however, recognise that student choice is and should remain the key driver for student recruitment.

68. The Committee had raised the issue of higher education spend in the context of previous budget scrutiny and also as part of its ‘Scottish Solutions’ report\(^\text{19}\). In that report, the Committee recommended that ‘significant additional funding’ would be required to enable Scottish universities to maintain their competitive edge, if variable tuition fees were introduced in England.

\(^{18}\) Official Report, 27 April 2004, col 942

\(^{19}\) Enterprise and Culture Committee, 3rd Report 2003 (Session 2), Report on Scottish Solutions Inquiry (SP Paper 67)
69. The Deputy First Minister assured the Committee that ‘The First Minister and I have placed on record the fact that additional funding will go to higher education’\textsuperscript{20}.

70. The Committee reiterates its previous recommendation that significant additional funding will be required for higher education to maintain Scotland’s competitiveness. The Committee will look to the outcome of the Spending Review process to deliver this.

Energy efficiency initiatives

71. The Committee was pleased to note, following its comments during the previous budget process, that funding for energy measures had been consolidated. The Committee was also pleased to note the establishment of a revolving fund for energy efficiency for local authorities, NHS boards and Scottish Water.

72. In addition to the £10M per annum for 2004-05 and 2005-06 set out in the AER for energy efficiency, the Deputy First Minister drew the Committee’s attention to a recent announcement of an additional £10M per annum for each of those two years for a Public Sector Energy Efficiency Initiative. Savings achieved through this initiative will be partly reinvested into the fund and partly used for service delivery.\textsuperscript{21} The Committee notes that this additional funding will appear at Stage 2 of the budget process in September.

\textsuperscript{20} Official Report, 27 April 2004, col 941
\textsuperscript{21} Official Report, 27 April 2004, cols 945-6
INTRODUCTION

1. The Committee has considered the spending plans of the Scottish Executive Environment and Rural Affairs Department (SEERAD) as set out in the Scottish Executive’s Annual Evaluation Report (AER) 2005-06. This consideration has taken place alongside the Committee’s inquiry into the implementation of the reform of the Common Agricultural Policy (CAP). In considering the spending plans of the Scottish Executive, the Committee has also taken account of guidance received from the Finance Committee.

2. In addition, the Committee has considered its report to the Finance Committee at Stage 2 of the budget process 2004-05, and has assessed the extent to which its comments in that report have been taken into account in the AER.

3. At its meeting on 21 April 2004, the Committee took evidence from Allan Wilson MSP (Deputy Minister for Environment and Rural Development). The Committee has also had the benefit of receiving supplementary evidence on a number of points from Executive officials, and is grateful for the co-operation it received. The Committee is also grateful for the analysis and advice received from its adviser, Professor Ken Thomson of the University of Aberdeen, and his colleague Professor Mark Shucksmith.

GENERAL ISSUES

Presentation

4. The Committee recognises that the “new-look” AER is intended to “mark the first steps towards a new process”, and welcomes the fact that there is now a single chapter on Environment and Rural Development in a shorter document. However, it considers the precise nature of this “new process” to be unclear. In particular, the current AER continues the practice of combining in one document material – both textual and numerical – for both ex post assessment of the effectiveness of spending to date, and ex ante appraisal of future plans. For this year at least, this practice gives rise to a number of difficulties, enumerated below.
5. The change in format means that there is only a single year (2003-04, for which only near-completed “plans” are available) of overlap with the previous year’s Annual Expenditure Report (The Scottish Budget 2003-04). The Committee believes that this makes ex post assessment of budgetary figures (especially estimates made in previous years) almost impossible.

6. Moreover, as the Deputy Minister acknowledged, the impending Spending Review makes the ex ante appraisal of budgetary plans for the future extremely difficult.1 In the SEERAD portfolio this difficulty is compounded by the ongoing nature of the current CAP reforms, and the fact that a number of important changes, such as the introduction of a new European Union financial perspective for rural development spending, will come into play only in 2007.

7. The Committee continues to experience extreme difficulty in conducting meaningful budget scrutiny. Continual changes in the format and presentation of documents – whilst designed to improve the process – have had the effect of making real comparisons between years almost impossible. The Committee believes that if it is to engage in meaningful scrutiny it must receive documents that are consistent and transparent in nature, thereby allowing such comparisons to take place.

8. The Committee wishes to express its frustration with the current nature of the budget scrutiny process. Given the high workload that the Committee has in relation to scrutiny of primary and subordinate legislation, and other referred work, the Committee believes that the process must be changed to enable Committees to engage properly with the issues raised by the budget. Unless such changes take place, and unless the Committee is able to make clear recommendations that will be taken up by the Executive, the Committee will be reluctant to give any degree of priority to the current budget scrutiny process, given the other demands on its time.

9. As with previous budget documents, there is no clear link between the main textual material in the AER and its budgetary figures. The new-look AER contains a number of “key targets the portfolio is working towards”, together with progress towards those targets. However, many targets do not relate to specific budget lines. The Committee considers that a more useful budget document would confine itself textually to targets and other matters that can clearly be linked to past and future spending. A separate document (or at least chapter) might deal with wider topics such as external (e.g. EU) policy reform, monitoring activity, higher-level objectives, etc.

10. The Committee also continues to experience great difficulty in scrutinising expenditure which is relevant to more than one portfolio. This difficulty is illustrated in respect of rural development spending. The Committee has been unable to develop a clear picture of the rural development spend as a whole, as so much of the spending takes place in other departmental portfolios, such as housing, transport and enterprise. While the Minister for Environment and Rural Development may have a co-ordinating role in determining overall rural development spending priorities, the Committee has not been able to obtain from

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1 Official Report, 21 April 2004, col 972
the Minister, or officials, any detailed explanations or objectives in relation to spending that occurs in other portfolios.

11. The Committee therefore repeats its previous recommendation that the Finance Committee should urgently undertake a review of cross-cutting rural development spending. Such a review should also aim to provide advice to this Committee as to how such spending can best be scrutinised in future.

Targets

12. The targets set out in the AER are the same as in Draft Budget 2004-05, where they were grouped under ten Objectives, roughly corresponding to Level 2 programmes. These ten Objectives have been dropped from the current AER without explanation. Moreover, the original “cross-cutting themes” in previous budgets are mentioned in the Introduction, but do not appear later in the AER (even in the SEERAD portfolio where they might be expected to feature strongly, especially as regards sustainability). Instead, four new “themes” are presented in the Introduction, though again these do not appear later in the AER.

13. The Committee would welcome a clearer explanation from the Scottish Executive as to how the four new themes set out in the AER Introduction relate specifically to the SEERAD portfolio and spending priorities.

14. The targets often refer to end-points in 2005 or 2006, with no intermediate milestones for, say, 2003. This means not only that progress to date cannot always be clearly seen, but also that future progress up to the end-date may be left unmonitored and unreported as new objectives and targets are adopted later in 2004 as part of the impending Spending Review and the subsequent budget.

15. The Committee would welcome the provision of more detailed information by the Executive on progress towards meeting targets, particularly in relation to targets which have end points in future budget years. The Committee notes that Executive officials have stated that they will “take this on board”. ²

16. The Committee welcomes the assurance of the Deputy Minister that “getting the (target-setting) exercise right” in the forthcoming spending review is a priority for the Executive, and looks forward to seeing how its views on objectives and targets can be taken on board during or immediately after that review.

SPECIFIC ISSUES

Water

17. The Committee notes that spending in 2004-05 and 2005-06 is planned to fall to below 80% of its level in 2003-04 (£250 million). Last year’s AER showed (as the only “Environment” item in “DEL Operating Budget”) an “estimated Water Authority profit” (shown as a negative item) of about £80 million for 2001-02 and almost £70 million for each of 2002-03 and 2003-04. This line has disappeared in

the current AER. Comparison with the main spending figures for Water in last year’s AER (Tables 10.1 to 10.3) is difficult since 2003-04 is the only overlap year, but planned spending in 2003-04 appears to have dropped from about £300 million to £250 million.

18. The falling share of DEL resources going to the SEERAD portfolio over the three-year period appears to be due mainly to this £50 million fall in planned spending on Water, and may be simply presentational. However, there is little clarity on this point in the AER documents. In oral evidence the Deputy Minister indicated that Scottish Water’s investment programme had been subject to some delay, but he stated that it should be judged on the period 2000-06 in total. In his view this meant that there would be some periodic fluctuations in budget lines. The Deputy Minister also noted that a number of issues related to the capital programme would be resolved within the process of completing the Quality and Standards II programme and the development of Quality and Standards III.

19. The Committee also requested and received further information from the Executive in relation to targets 1 and 2 for water (improving public water supplies, and reducing the number of sewage treatment works not in compliance with consents). The Committee is grateful for this further information.

20. The Committee notes the statement by Executive officials that, in relation to the number of sewage treatment works not in compliance, “all other things being equal, .... a lower target will be announced at the conclusion of this year’s spending review in September”.

21. The Committee has received a number of representations from petitioners in relation to odour nuisance issues. These representations indicate that there has been a lack of attention to odour control issues in the design of waste water treatment plants. The Committee understands that the design of such plants is to become a standardised process. The Committee believes that the Minister should bear the issue of odour control in mind when making budgetary decisions in relation to the water spend.

22. As noted above the current target relates to the number of waste water treatment facilities not in compliance. The Committee recommends that this target should be reviewed, with the objective of achieving more effective odour control in relation to future waste water treatment facilities together with a reduction in the number of existing facilities not in compliance.

23. The Committee welcomes the measurable nature of the targets which relate to drinking water quality and waste water quality.

Natural Heritage

24. The only Natural Heritage target (no. 3) in the AER refers to “numbers of walkers visiting”, for which “baseline figures” are to be published by SNH. In the Draft Budget 2004-2005 (September 2003), several other “performance” measures
were reported, e.g. number of access officers in post, SSSIs under assured management, various Action Plans completed. In the current AER, planned spend for 2003-04, at £58 million, is considerably above the figure in last year’s AER (£50 million), and no reasons are given. The National Parks allocations rise by (only) about 8% per year, to £8 million in 2005-06.

25. The Committee has received supplementary information from the Executive in relation to the National Parks allocations, and notes that these baselines will be subject to further consideration as part of the spending review. The Committee welcomes the provision of further information by the Scottish Executive in relation to the objectives behind these funding allocations.

26. The Committee would also welcome the provision of further information in relation to performance measures such as those outlined in paragraph 24 above. These appeared in previous documents, but have been omitted from the current AER.

27. The Committee remains sceptical about the value of the target which refers to “numbers of walkers visiting”. The Committee is unclear how these figures are arrived at, and would welcome further explanation on this point. The Committee further notes that this is a very narrow target given the broad policy areas covered in “natural heritage”.

Environment Protection

28. The draft AER sets out five targets (4, 5, 6, 7, 8) relating to:

- The amount of waste collected by local authorities which is to be recycled or composted (to increase to 25% by 2006)
- Reduction of land-filling of bio-degradable waste (to reduce to 1.5 million tonnes by 2006)
- Flood Prevention (1850 properties to have their risk of flooding reduced to below 1% by 2006)
- The delivery by SEPA of a state of the art assessment of Scotland’s water environment (by 2004) and the extension of its water quality monitoring network (by 2006) and
- The completion by SEPA of an on-line emissions inventory by end 2005.

29. The Committee has also received supplementary information from the Executive on the targets relating to waste and flood prevention.

30. In relation to the waste targets, the Committee has previously reported in some detail on the implementation of the national waste plan. The Committee welcomes the development of robust and measurable targets in this area.

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5 Inquiry into the National Waste Plan, Environment and Rural Development Committee, 4th Report 2003
and further welcomes the revised arrangements for monitoring progress in this area, as set out in the supplementary evidence from the Executive.

31. In relation to the other environmental protection targets, the Committee notes that, in general, these targets are both relatively robust and relatively easy to measure in concrete terms, and commends the development of these targets. However, the Committee would welcome further information on what the development of the ‘state of the art assessment of Scotland’s water environment’ will involve.

Agriculture and Rural Development

32. Progress towards target 9 (“encourage more sustainable agricultural activity on 13,500 farm businesses in Scotland’s remote hills by 2006”) simply records the number of Less Favoured Area Support Scheme (LFASS) claimants. Target 9 is followed by a further Rural Development target to (“deliver better service provision to rural communities through support for around 80 new rural development projects each year …”). Both of these targets were criticised in the Committee’s report on the Draft Budget 2004-05 as being hard to relate to specific outcomes, but little appears to have changed. As noted in paragraph 8 above, the Committee finds it frustrating when it is obliged to repeat the same recommendations year upon year.

33. The Committee notes that a recent mid-term evaluation of the Scottish Rural Development Plan concluded that if a proactive environmental benefit is sought through the LFAS Scheme, then some amendment will be required to the payment criteria. The Committee therefore welcomes the Minister’s willingness to reconsider the targets set for the Less Favoured Area Support Scheme and the measurement of its effectiveness.

34. Target 14 (to “make Scottish agriculture more competitive and sustainable”) is related to the current CAP reform discussions, and is again hard to relate to measurable outcomes or indeed spending plans. However, the balance between Rural Development spend (totalling £136, £136 and £163 million in 2003-04, 2004-05 and 2005-06) and CAP Market Support (£340, £370 and £340 million) is still in favour of the latter.

35. The jump in Rural Development spend is mainly due to a rise in the cost of the Rural Stewardship Scheme (RSS) from £13 million in 2004-05 to £30 million in 2005-06. The Executive confirmed in evidence that this represents the “parking” of still-unallocated Treasury commitments, as discussed in the Committee’s report to the Finance Committee at Stage 2 of the budget process 2004-05, last autumn. Executive officials stated that the 2005-06 budget in the autumn would give “a far truer picture of the provision that is sought for those measures [i.e. the Environmentally Sensitive Areas scheme, the Rural Stewardship Scheme, the Countryside Premium Scheme and other schemes] and one that is consistent with

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7 Official Report, 21 April, 2004, col 977
8 Official Report, 21 April 2004, col 977
the rural development plans\textsuperscript{9}. This clearly implies that the 2003-04 presentational practice gives a less “true” and less “consistent” picture. \textbf{While acknowledging the difficulties inherent in setting out spending plans in advance of the spending review, the Committee continues to have grave reservations about the practice of “parking” money in budget lines without any further explanation being given in the budget documents.}

36. Similarly, Executive officials confirmed that the apparent 69 per cent drop in planned expenditure for the Organic Aid Scheme between 2004-05 and 2005-06 did not in fact reflect a reduction in that scheme\textsuperscript{10}. The later figure was simply the original 2002 spending review figure, while “the next draft budget will contain a proposal for next year’s budget that is entirely consistent with ministers’ statements on increases in organic aid.”\textsuperscript{11} This being the case, it is difficult to see the purpose in publishing the AER figures as they stand.

37. The Committee will shortly be publishing a report on the implementation of CAP reform in Scotland, and issues of funding priority will be addressed as part of that report. \textbf{The Committee notes that many of the targets and figures for agriculture and rural development spending in the AER are based on figures developed as a result of the 2002 spending review. It is obvious that these figures will change as a result of the 2004 spending review, and the Committee therefore finds it difficult to comment on figures that do not reflect true spending intentions.}

38. As part of its inquiry into CAP implementation, the Committee explored with the Minister the possibility of making more information available about payments made under the CAP regime. The Committee believes that, with the gradual shift in spending from Pillar 1 to Pillar 2 of the CAP, it should be possible to provide for greater transparency in how this money is spent. Such transparency is particularly important in respect of Pillar 2 funds, and the Committee notes that in most cases, applicants must undergo either an application or competitive bidding process to obtain access to these funds. The Committee accepts that making this information publicly available may potentially raise a number of data protection issues, but believes that it should be possible to make some breakdown of these payments available. At the very least information could be made available on, for example, a regional basis, or on the basis of the types of payment made. \textbf{The Committee recommends that the Minister should take this opportunity to explore how information on these payments can be made more freely available.}

39. The Committee has also received a great deal of evidence on the priorities for rural development spending under Pillar 2 of the CAP. Having reflected on this evidence, and on the possible implications of the spending review, the Committee has identified two areas which it believes would benefit from the use of any additional monies obtained as a result of the 2004 spending review.

40. The Committee notes that the UK government has recently outlined plans for a comprehensive new agri-environmental scheme for England, designed to be

\textsuperscript{9} Official Report, 21 April 2004, col 978
\textsuperscript{10} Official Report, 21 April 2004, col 980
\textsuperscript{11} Official Report, 21 April 2004, col 978
accessible to as many farmers as possible. The new scheme, to be known as Environmental Stewardship, will offer farmers a basic payment of £30 per hectare, in return for "carrying out specific environmental management options on their farm," according to DEFRA. The scheme will also offer two higher-level options besides the Entry Level Stewardship. These are an Organic Entry Level Stewardship (to be paid to all organic farmers at a rate of £60/ha) and Higher Level Stewardship (which will build on the basic Entry Level in order to deliver significant environmental benefits in targeted high-priority situations and areas.)

41. The Committee recommends that the Minister should give serious consideration to the creation of similar agri-environmental schemes in Scotland, and that such schemes should be made accessible to as many farmers as possible, in return for the provision of explicit and additional public benefits.

42. The Committee also believes that the agricultural sector in Scotland faces many challenges in positioning itself to meet the new cross-compliance requirements under the CAP, and in adapting existing farm businesses so that they can respond appropriately to a more market-oriented regime. The Committee therefore recommends that the Minister should provide more resources to ensure that farmers have access to training and advice to allow them to meet these challenges. Given that the reforms will come into effect in January 2005, the Committee believes that the Scottish Executive should work with both new and existing training and advice providers to ensure that such services can be accessed by farmers as soon as is practicable.

Research

43. The relevant target (12) concerns only an external scientific assessment to take place in 2007. Progress is said to be “on course”, but the new research strategy will only be published “later this year”. Spending on the Scottish Agricultural College (SAC) is held at £19 million each year, i.e. a slight decline in real terms. Spending on the research institutes (SABRIs) rises from £35 to £39 million, a considerable rise from last year’s AER, which gave a flat figure of £34 million each year.

44. The Committee would welcome further explanation from the Executive as to the reasons for the changes in these figures.

Fisheries

45. This target (13) concerns stock recovery plans. Progress is represented by the December 2003 European Union agreement, and by “significant financial interventions by the Executive in 2003 - some £40m on associated decommissioning and transitional aid measures”. However, the relevant figures do not reflect this, and are confusing. The Draft Budget 2004-05 reported £28 million for “grants” in 2003-04 (including an allocation of £15 million from the Executive’s reserve) and £13 million for 2004-05. The AER 2005-06\textsuperscript{12} reports only £13 million for 2003-04, stating that a “lower budget ... reflects slippage (£15m) in expenditure.

\textsuperscript{12} AER 2005-06 p 77-8
under the Fisheries Decommissioning and Transitional Aid Schemes”; and £10 million in 2004-05.

46. The Committee has experienced great difficulty in reconciling these figures and recommends that more thought be given to developing ways in which Committees can directly compare spending plans on a year-on-year basis.

Climate Change

47. The AER contains no mention of climate change, which is an important aspect of sustainability, and was raised in the Committee’s discussions last year. In evidence, the Executive explained that this matter did not appear because “we spend relatively little programme money on the issue of climate change”13. While consistent with the remarks above on the format of the AER, the Committee notes that this is not an approach that has been taken elsewhere in the portfolio.

48. Again, the Committee is grateful to the Executive for providing additional information in relation to climate change. This additional information highlights the fact that work on climate change cuts across a number of different departments, and that much of the spending falls within other portfolios.

49. The Committee notes that the Executive is to undertake a review of the Scottish Climate Change Programme in 2004, and would welcome further clarification of the budgetary arrangements for this programme following this review.

50. As noted in paragraph 10 above, the Committee has previously commented on the difficulty of examining cross-cutting issues, and draws the issue of climate change to the Finance Committee’s attention, as an example of these difficulties. The Committee further notes that, had the theme of sustainable development been further elaborated on as part of the SEERAD portfolio, this might have assisted in providing more information on cross-cutting issues such as climate change.

"KEY QUESTIONS" RAISED BY THE FINANCE COMMITTEE

Progress on Outstanding Issues

51. As explained in the “General Issues” section, and in some “Specific Issues” points above, the Committee is not satisfied with the response to its previous recommendations on a number of outstanding issues.

52. In particular, the Committee is not convinced that previous criticisms in relation to the development of targets have been taken into account, given that many of the targets still appear to be based on the targets which appeared in ‘Building a Better Scotland’ after the 2002 spending review.

53. The Committee continues to have grave reservations about the Scottish Executive’s practice of “parking” money against nominal budget lines in

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13 Official Report, 21 April 2004, col 975
anticipation of the outcome of the spending review. Without further explanation, such practices give a misleading impression of spending intentions.

54. As noted in paragraph 8, the Committee continues to experience great difficulty in reconciling figures which are set out in separate budget documents, and presented in differing ways. The Committee recommends that more thought be given to developing ways in which Committees can directly compare spending plans on a year-on-year basis.

55. As noted in paragraph 10 above the Committee also continues to have difficulty in scrutinising cross-cutting issues, especially where spending may fall into more than one portfolio. This applies particularly in relation to rural development spending, and the Committee therefore repeats its previous recommendation that the Finance Committee should urgently undertake a review of cross-cutting rural development spending. The development of over-arching themes does not seem to have assisted in the scrutiny process, as these themes do not appear to be carried through, in any meaningful way, into the individual portfolio chapters.

56. The Committee also notes that there are a number of performance measures which have appeared in previous documents but which are omitted from the AER, and it would welcome further information in relation to these performance measures.

Realignment of Resources and Priority Schemes

57. The Committee remains concerned that the falling share of the budget for the SEERAD portfolio (in real terms) may not accord with the overarching Executive strategy of sustainability.

58. The Committee will shortly be publishing a report on the implementation of CAP reform in Scotland, and issues of funding priority will be addressed as part of that report. The Committee notes that many of the targets and figures for agriculture and rural development spending in the AER are based on figures developed as a result of the 2002 spending review. It is obvious that these figures will change as a result of the 2004 spending review, and the Committee therefore finds it difficult to comment, or to recommend alternative spending plans, when dealing with figures that do not reflect true spending intentions.

59. The Committee recommends that priority in the forthcoming Spending Review should be given to targeted rural development schemes with clear public-good objectives, which are compatible with the aims of the reformed Common Agricultural Policy. As noted in paragraphs 37 - 42, the Committee has identified two areas which it believes would benefit from the use of any additional monies obtained as a result of the spending review.

60. The Committee recommends that the Minister should give serious consideration to the extension of agri-environmental schemes in Scotland,
and that such schemes should be made accessible to as many farmers as possible in return for the provision of explicit and additional public benefits.

61. The Committee also recommends that the Minister should provide more resources to ensure that farmers have access to training and advice to allow them to meet the challenges of the reformed CAP regime. Given that the reforms will come into effect in January 2005, the Committee believes that the Scottish Executive should work with both new and existing training and advice providers to ensure that such services can be accessed by farmers as soon as is practicable.

New Budget Approach

62. The Committee recognises that the “new-look” AER is intended to mark the start of a new process. The Committee welcomes the fact that there is now a single chapter on Environment and Rural Development in a shorter document.

63. However, the “revised budget approach from the Scottish Executive” is not particularly apparent in the AER document, and the overlap of only one year with the previous year’s document is unfortunate. The lack of firm historic spend figures prevents a clear long-term picture of the original 2002 Spending Review commitments from emerging. The Committee believes that this makes it nearly impossible to scrutinise past expenditure effectively. The impending spending review also makes the scrutiny of future budget plans extremely difficult. The Committee believes that the Finance Committee should therefore give further thought to how Committees should approach budget scrutiny in spending review years, given the difficulties in examining future spending priorities.

64. The Committee believes that if it is to engage in meaningful scrutiny it must receive documents that are consistent and transparent in nature, and which allow comparisons between spending years to be made. Unless such documents are provided, and unless the Committee is able to make clear recommendations that will be taken up by the Executive, the Committee will be reluctant to give any degree of priority to the budget scrutiny process, given the other demands on its time.

65. The Committee further notes that the original ‘cross-cutting themes’ which are mentioned in the Introduction, and on which the Finance Committee seeks views, do not appear later in the document, not even in the SEERAD portfolio where they might be expected to feature especially strongly. The Committee would welcome a clearer explanation from the Scottish Executive as to how the four new themes set out in the Introduction relate specifically to the SEERAD portfolio and spending priorities.

Targets

66. In relation to targets, the Committee was pleased to note that progress on meeting most ERD targets is recorded as being “on course”, but points out that several of these targets are either non-specific (e.g. “to support the development of new products, etc.”) or very narrow (e.g. “numbers of walkers visiting” as the
only Natural Heritage target, or to “monitor delivery of Partnership Agreement commitments”). The Committee continues to experience difficulty in linking targets with specific budget lines and believes that more appropriate targets, with a greater focus on outcomes, and preferably linked to spending patterns, would be welcomed.

67. The Committee would welcome the provision of more detailed information by the Executive on progress towards meeting targets, particularly in relation to targets which have end-points in future budget years.

68. As noted above the current target in relation to waste water treatment relates to the number of waste water treatment facilities not in compliance. The Committee recommends that this target should be reviewed, with the objective of achieving more effective odour control in relation to future waste water treatment facilities together with a reduction in the number of existing facilities not in compliance.

69. In relation to the Natural Heritage targets, the Committee remains sceptical about the value of the target which refers to “numbers of walkers visiting”. The Committee is unclear how these figures are arrived at, and would welcome further explanation on this point. The Committee further notes that this is a very narrow target given the broad policy areas covered in “natural heritage”.

70. The Committee welcomes the development of measurable targets in respect of flooding, water quality and waste, subject to the provision of further information on what the development of the ‘state of the art assessment of Scotland’s water environment’ will involve.

71. The Committee welcomes the Minister’s willingness to reconsider the targets set for the Less Favoured Area Support Scheme and the measurement of its effectiveness.14

72. The Committee welcomes the assurance of the Deputy Minister that “getting the (target-setting) exercise right” in the forthcoming spending review is a priority for the Executive, and looks forward to seeing how its views on objectives and targets can be taken on board during or immediately after that review.

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14 Official Report, 21 April, 2004, col 977
Equal Opportunities Committee  
Report on Budget Process 2005-06

The Committee reports to the Finance Committee as follows—

Introduction

1. The Scottish Executive published its Annual Evaluation Report (AER) on 31 March 2004, setting out its priorities in its spending plans for 2005-06. The Equal Opportunities Committee acknowledges the changes in the format of the budget documents made in response to recommendations made by the Finance Committee and welcomes the Executive’s concentration on strategy and performance issues in the new AER document.

2. The Committee took evidence from Margaret Curran MSP, Minister for Communities at its meeting of 4 May 2004. The Committee also received written evidence from stakeholder groups: the Commission for Racial Equality (CRE), the Equal Opportunities Commission (EOC) and the Scottish Women’s Budget Group (SWBG).

3. The Committee wishes to thank all those organisations who submitted evidence to what were particularly short timescales. The Committee also wishes to thank Professor Arthur Midwinter, budget adviser to the Finance Committee, for his assistance in the Committee’s considerations, in particular his providing briefings to the Committee at its request.

Priorities and targets

4. The Committee noted that the AER set out four interlinked priorities; growing the economy; excellent public services; stronger, safer communities; and revitalising democratic frameworks. The Committee wished to examine why the Executive combined equal opportunities with closing the opportunity gap within the stronger, safer communities theme and did not set out equality as a crosscutting issue, unlike sustainable development which was presented as a focus throughout all of the four priorities. The Committee heard from Professor Midwinter that this “repositioning of equality is capable of being interpreted as downgrading”\(^1\). The Committee also heard from the EOC, the CRE and the SWBG their concerns in relation to the lack of clarity

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\(^1\) Equal Opportunities Committee, 20 April 2004, Official Report, Column 389
surrounding equality and closing the opportunity gap. The SWBG was concerned at the location of equality in the AER document stating that—

“SWBG recognises that inequalities are associated with poverty and disadvantage, however, they are not synonymous. We are concerned that presenting equality work in this way suggests the Social Justice agenda is subsuming the equality agenda.”

5. The CRE also highlighted this issue stating that—

“It is important that projects or targets which purport to seek to address issues of In/equality are not in fact confused or conflated with initiatives/objectives seeking to address wider social exclusion/justice issues.”

6. In addition, the Committee notes the views of the CRE in relation to the themes set out in the AER where they state that—

“CRE are content with the appropriateness of the themes. However, we strongly recommend that Equalities should be regarded as a cross-cutting theme for all four areas. […]. These areas will ultimately deal with key “life chances” such as access to employment, services and civic engagement. It is well documented that it is in these areas where discrimination and disadvantage can occur.”

7. The Minister for Communities in evidence to the Committee stressed her view that, “equality issues have in no way been downgraded in the new AER. Equality continues to be a key cross-cutting priority in the AER, among a reduced number of priorities.” The Minister also stated her belief that the four priorities as set out in the introduction to the AER did contribute to tackling inequality.

8. The Committee acknowledges the genuine commitment of the Minister to furthering equalities issues within the Executive and the work undertaken to date but recommends that a clearer distinction be made between “equality” and “closing the opportunity gap” which it believes will allow greater emphasis to be given to equality targets.

9. In the Committee’s view the Minister for Communities’ evidence, together with evidence given to the Finance Committee by Mr Andy Kerr MSP, Minister for Finance and Public Services, highlighted the need for effective mainstreaming of equality within individual Executive departments. The Committee therefore questioned the Minister for Communities on her confidence in its progress. The Minister stated, “The pace of development is uneven. We need to encourage more people to see equality as an answer to some of the challenges that they face, as opposed to another burden or problem […] There is still a lot more work to be done although the principle of mainstreaming has been accepted.”

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2 SWBG written submission, page 2, paragraph 2
3 CRE written submission, paragraph 3.1
4 CRE written submission, paragraph 4.1
5 Equal Opportunities Committee, 4 May 2004, Official Report, Column 422
6 Equal Opportunities Committee, 4 May 2004, Official Report, Column 422
7 Finance Committee, 27 April 2004, Official Report, Column 1302
8 Equal Opportunities Committee, 4 May 2004, Official Report, Column 427
10. The Committee notes the view of the SWBG that—

“Progressing equality mainstreaming remains an important overarching issue to be addressed by the Scottish Executive and the Parliament and it is our view that sufficient time has elapsed to enable target setting on equalities issues.”

11. The CRE also highlighted this issue stating that—

“Mainstreaming will only be successful if clear equalities objectives and performance indicators are included which can be tracked and monitored in order that real outcomes, change and success can be identified and reported. Mainstreaming must not mean that work on in/equalities is unidentifiable within the mainstream portfolio.”

12. The Committee was interested to note the proposals for two pilot studies of “gender impact assessment” in health and sports to be taken forward by the Executive in partnership with the Equality Proofing Budget and Policy Advisory Group (EPBPAG). The Executive in evidence stated its intention that these pilots, which are planned below level 3, provide information relating to policy and outcomes that can be applied on a larger scale. The Committee was interested to learn that, although these pilots focus on gender issues, it is hoped that the data gathered could provide information and develop a model that would assist in monitoring the impact of policy on other equality groups.

13. The Committee noted that this was similar in approach to mainstreaming pilot studies undertaken in the areas of education and housing, which the Executive explained in earlier evidence as being developed “with a view to rolling out initiatives across the Executive.” The Committee therefore seeks an update from the Minister with regard to the outputs and conclusions of the work done in relation to the housing and education pilots conducted in previous years.

Specific targets

14. The Committee wished to establish the equality considerations contained within the AER and put questions to the Minister in relation to implementation and monitoring of the Modern Apprenticeships schemes, the Working for Families Fund and proposals for a cultural strategy. The Committee was assured by the Minister that equalities considerations were being taken into account within these targets.

15. However, evidence received from the SWBG expressed concern in relation to target setting stating that—

“some of the targets are not specific about the extent of change that is anticipated and their value is diminished as a result […] More specific and measurable targets would have enabled those scrutinising or commenting on progress to gain a clearer understanding of the extent of progress aimed for and achieved over the period.”

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9 SWBG written submission, page 4, paragraph 5
10 CRE written submission, paragraph 3.2
11 Equal Opportunities Committee, 28 October 2003, Official Report, Col 106
12 SWBG written submission, page 4, paragraph 4
16. The Committee acknowledges the Executive’s commitment to mainstreaming equality but strongly recommends that transparent and measurable equality targets should be included in each portfolio statement.

17. In addition, the Committee accepts the offer extended by the Minister that the Executive reports the findings from its pilot studies to the Committee, particularly given the opportunity it offers to examine proposals for their application on a wider scale in relation to other policy areas and other equality groups.

Equality Audits

18. The Committee is also of the view that whilst the AER should provide transparent targets, it is particularly important that a process exists to ensure that these can be effectively monitored in relation to promotion of equality at a level that directly impacts on people’s lives. Of concern to the Committee are the points raised by stakeholders during the previous draft Budget stage that the impact of policies should be measured in order to facilitate effective target-setting within Executive departments. The Committee therefore welcomed the suggestion by Professor Midwinter that equality audits be undertaken to measure the impact of programmes. Professor Midwinter has suggested to the Committee that equality audits could be undertaken to examine the objectives and costs of level 3 programmes; to assess the contribution a programme makes to equality issues through the employment in, access to and impact of a service; to identify any gaps in the current level of provision and to make recommendations for improvement.

19. The Minister in evidence to the Committee was interested in the proposals in the context of work already being undertaken by the Equality Proofing Budget and Policy Advisory Group and written evidence received from stakeholders echoed this view.

20. The Committee recommends that targeted equality audits be undertaken during this Parliamentary session in order to facilitate scrutiny of Executive spending and inform future target setting. In light of the positive invitation received from the Minister in evidence to undertake discussions in relation to equality audits, the Committee proposes to write to the Minister with a suggested framework as to how this might be taken forward.

Local Services and Best Value

21. The Committee noted that target 1 of the Finance and Public Services portfolio statement was to have in place at the end of April 2004 a new framework for monitoring the delivery of local services through Best Value. Given that the Local Government in Scotland Act 2003 provides that councils must discharge their duty of Best Value in a manner which encourages equal opportunities, the Committee wished to establish progress made in monitoring its delivery. The Executive gave an undertaking to the Committee that it
would provide an update once further information was gathered via a rolling of programme of audits being undertaken by the Accounts Commission.

22. Professor Arthur Midwinter stated in evidence to the Committee that the “Executive funds the public sector in the same way as it funds its own departments. Public sector employment really ought to have targets that are similar to those that the Executive has set for itself.”\(^{13}\)

23. The Committee notes the lack of public sector targets and recommends that equal opportunities employment targets for the NHS and local authorities should be published in future budget documents. The Committee also requests that this issue be included in the proposed future discussions between the Committee and the Minister.

Volunteering

24. The Committee during its examination of issues in preparation for its upcoming inquiry into disability heard that “the incidence of people with disabilities being actively involved in volunteering is much lower than for the population as a whole.”\(^{14}\) The Committee therefore wished to establish that any volunteering initiative would target disabled people and other equality groups. The Minister explained that the Executive tries “to support groups to ensure that volunteering strategies are appropriately attuned to the different needs of the population.”\(^{15}\) The Committee noted that this assurance is particularly important in the light of the Executive’s announcement on 11 May 2004 in relation to the proposed new national programme of volunteering for young people, “Project Scotland”.

25. The Committee and its Reporters have heard a number of concerns from stakeholders in relation to voluntary sector funding, such as the short timescales of some funding and the lack of funding for the development of projects once they are established. The Committee is therefore concerned that any target such as target 15 of the Communities portfolio should be supported by consistent and adequate voluntary sector funding.

26. The Committee therefore requests an update from the Minister on the progress of the voluntary sector Strategic Funding Review currently being taken forward by the Executive.

Conclusion

27. The Committee acknowledges the considerable work undertaken by the Minister for Communities in taking forward equality issues and that the repositioning of equal opportunities is not intended to represent a downgrading of equality within budget priorities. However, in order to ensure that the priority given to equality issues is highlighted, the Committee believes that further distinction should be made between “equality” and “closing the opportunity gap” in the budget documents.

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\(^{13}\) Equal Opportunities Committee, 20 April 2004, Official Report, Column 385
\(^{14}\) Equal Opportunities Committee, Report of the informal meeting, 2 December 2003, col 2
\(^{15}\) Equal Opportunities Committee, 4 May 2004, Official Report, Column 442
The Committee also believes that equality statements should be made within each portfolio, which it believes would support the Executive’s mainstreaming equality policy.

28. The Committee is of the view that the AER 2005/06 reflects an improvement in mainstreaming equality policy at the Executive. In view of the Minister’s indication that some Executive Departments are making more progress in relation to mainstreaming than others, the Committee recommends that the Executive should continue its efforts to encourage a consistent approach across all Departments.

29. The Committee would wish to see the mainstreaming policy further develop through the examination of the targets and impacts of particular programmes and supports the idea of equality audits proposed by Professor Arthur Midwinter. The Committee therefore looks forward to conducting discussions with the Executive in relation to equality audits and in relation to the proposed pilot studies.
The Scottish Parliament

Health Committee


The Committee reports to the Parliament as follows—

INTRODUCTION

1 The Committee has considered the spending plans of the Scottish Executive Health Department as published in the Annual Evaluation Report (AER) 2005-06. Set out later in this report are the Committee’s answers to the Finance Committee’s 6 questions.

2 The Committee also offers the following general comments on the Annual Evaluation Report and the process of budget scrutiny.

3 As the Committee makes clear in its response to the Finance Committee’s second question, the information available upon which to make judgements about realignment of resources within the Department Expenditure Limit is inadequate, as it gives no indication of the likely outcomes resulting from each block of expenditure. Without these data there is a risk that reallocation will unintentionally do more harm than good. This view has been reflected in written evidence received by the Committee from the Royal College of General Practitioners (Annexe P):

   Information is expensive but ignorance is even more costly, in terms of failing to deliver the health improvements that primary care can offer.

4 While the Royal College of General Practitioners was referring to primary care alone, the Committee believes this general principle to apply to the rest of the health budget.

5 Owing to the lack of detailed data for 2005-06, the Committee has tried to look more closely at how money is being allocated in 2004-05. Several problems arise in respect of budget scrutiny, as discussed in paragraphs 6 to 18 below.
6 The Executive can describe in general terms what the benefits of any particular policy are likely to be, but it cannot necessarily either anticipate when these benefits will be realised or quantify what impact they will have on patient outcomes. As an example, the Health Minister said that the new Consultants’ Contract will result in them spending more time with patients but it is not clear what this means in terms of better diagnosis or treatment (HC, col 815).

7 Decisions to make spending commitments in relation to national policy priorities are taken centrally while the knock-on effects are felt locally. By reviewing publicly-available plans from health boards the Committee has become aware of a number of proposed service developments that have been put on hold as a result of the need to give priority to centrally determined policies. These service developments could have had very clear and tangible benefits to patients, in contrast to the new pay arrangements, the benefits of which are difficult to measure.

8 Moreover, the Executive does not always know the cost impact of its policy commitments, both direct (e.g. pay arrangements) and indirect (e.g. need to achieve waiting time targets). Peter Collings, the Director of Performance, Management and Finance, Scottish Executive Health Department, stated in oral evidence to the Committee that major proposals were costed (HC, Col 745), but this directly contradicts what the Chief Executive of the NHS told the Committee in September 2003 when he admitted to not knowing the total cost of the waiting time initiative (30 September 2003, HC, Col 241).

9 The Committee has found evidence that this failure to appreciate the full cost of national policy commitments has resulted in overheating at health board level as managers struggle to cope. This corroborates on-going enquiries by the Audit Committee into the financial state of the NHS – the Chief Executive of the NHS answered this point before that Committee by saying that there was a preference in the NHS to pass the money to local level and not to ring fence it (AU, Col 510). However, this is not the same as not knowing what a policy costs in total in the first place.

10 The Executive is right to say that spending is at record levels but pressures on this money are at record levels too. In oral evidence to the Committee the Health Minister acknowledged that health boards face particular challenges this year because a number of new policies will become operational simultaneously. He said -

   The fact that those contracts will come on stream together will present difficulties, but we will do all that we can to help boards in that difficult situation. I managed to distribute an extra £30 million just before the end of last financial year – boards obviously welcomed that money, but it will not address all their difficulties. I will see what else I can do during the year through any further distribution of money. (HC, Col 807)
11 In its written evidence to the Committee (Annexe P) the Royal College of Nursing expressed concern about the funding arrangements for Agenda for Change. The RCN said -

In the light of significant change in the NHS the RCN Scotland has called for Agenda for Change to be fully resourced and implemented in a timely manner, wherever taxpayers’ money funds nurses pay. We have also called for the Scottish Executive to share with the Scottish Partnership Forum and Human Resources Forum detailed, costed and time-specific plans for full implementation; and for pay modernisation funding for Health boards to be clearly split into allocation for Agenda for Change, consultants’ contract and the General Medical Services contract.

Several health boards are entering the financial year 2004-05 projecting a deficit that will be covered either by a ‘cost recovery plan’ or by using ‘non-recurring’ funds. The Committee does not see how local health boards can reasonably be expected to plan for the future in the absence of such information.

12 As a result of the unprecedented and uncertain financial pressures they are facing, local health boards are producing financial plans for 2004-05 at the end of the first quarter of that financial year. Any sensible prospective budget scrutiny rests on the assumption that plans are available for how the main blocks of money will be used. The biggest health boards have budgets equivalent to those of medium sized Executive departments, yet in several cases they are not sure how they will spend their money in the current financial year, let alone next year.

13 Giving evidence at the Audit Committee the Chief Executive of the NHS said there should be no big surprises for Health boards in their plans – they should be aware of pressures either from their own sources or via the Executive (AU, Col 511). The Minister in his evidence to the Health Committee said that boards have known for a long time how much money they will receive (HC, Col 817). This makes it seem all the more strange that plans take so long to prepare. This gives a sense of crisis management – as reported in paragraph 10 above, the Minister stated in oral evidence to the Committee that he was able to make additional funds available towards the end of the last financial year and would seek to do similarly this year. At one level this is welcome; however, health boards seem to be becoming more and more dependent on these non-recurring ‘bail outs’ to avoid ending the year with a deficit. The Committee does not regard this as a sound basis from which services can be planned at a local level.

14 In his oral evidence to the Committee, the Minister stated that he thought the current financial year was unusual, but this appears to contradict evidence to the Audit Committee where answers given by the Chief Executive of NHS Scotland suggest that the current very tight financial situation would last for
The Health Committee concludes that looking at the financial situation of the NHS in the present year gives a fair indication of what we can anticipate next year, the budget period in question.

15 Health board decisions are made in light of local circumstances. The Committee appreciates the attractions of this policy in terms of flexibility and does not wish to see a shift towards centralised decision-making. However, it is important that the Executive recognises its role as the conduit for accountability between the Parliament and the health boards. This does not require the Executive to dictate local choices but it does require it to collate data on local plans in a way that is (i) in a common and accessible format and (ii) timely (for example, local financial plans should be collated and made available to the public before the start of each financial year). Some of the evidence offered by the Executive suggests that the main data they supply is provided via the Performance Assessment Framework. These data are valuable but they are not enough as they are purely retrospective and cover a limited range of topics.

16 The Committee has expressed its frustration with the data available for budget decision-making, covering all of the above points, twice a year for the last four years. Despite this, in oral evidence in 2004 Executive officials asked for more information about what the Committee wants to know (HC, Col 736). The Executive has offered general statements of intent to cost policies in full (for example, the Partnership Agreement pledges to make all spending commitments subject to a full assessment of social and economic impact). However, no time limits have been set and there is no evidence offered of progress. One initiative cited on the contribution of health services to health outcomes has ended up reporting on autism – important as this disease is, the Committee suspects that it accounts for less than 1% of the health portfolio expenditure. There is also to be a review of NHS statistics (HC, Col 735), but this is not with specific regard to the budget reporting process and there is no suggestion of when the data presented in the Annual Evaluation Report and draft budget documents will change. The only piece of on-going work dedicated specifically to this is that initiated by the Committee last October. It is unfortunate that the Executive has not seen fit to launch any initiative of its own dedicated to improving the supporting evidence available for national budget decisions.

17 The Committee does not believe that monitoring of progress against targets is sufficiently rigorous. It is also concerned that some targets have been set in ways that do not allow meaningful change to be measured. In several cases, monitoring progress uses data sources that might only be available every few years (e.g. Scottish Health Survey for smoking and drinking, NHS Quality Improvement Scotland reviews for hospital cleanliness). In other cases, for example on hospital cleanliness and unmet need for free personal care, the targets are not set according to SMART principles (i.e. targets that are specific, measurable, achievable, relevant, and time limited). In some cases, for example in the case of out-patient and cancer treatment waiting time targets, monitoring of
progress appears to amount to Executive assurances that everything is on course. This Committee finds this unsatisfactory and cannot say with confidence whether good progress is being made, whether further action is required or whether an individual target is appropriate.

18 In short, the Committee believes there is a need for the Executive to be more responsive and accountable to the Committee and the Parliament.

Recommendation 2004/01: The Partnership Agreement states that new spending commitments will be evaluated for economic and social impact and value for money. The Executive should provide evidence that this is happening. The Committee recommends this evidence be made available for (i) the new Consultant Contract, (ii) the new General Medical Services Contract, (iii) Agenda for Change, (iv) the workload report of the Facing the Future group.

Recommendation 2004/02: The Executive should put in place a mechanism that indicates whether local service developments will be affected if a central policy initiative is to be implemented. This should indicate whether developments will be put on hold, the number of patients affected, and what the loss of the service development will mean to them. The Executive should provide evidence that this is considered before a decision is taken to make fresh policy commitments.

Recommendation 2004/03: The Executive should make clear the remit for its review of NHS statistics and involve interested parties beyond the NHS, including the Committee, in its review.

FINANCE COMMITTEE QUESTIONS

- Is the Committee satisfied that progress has been made over any outstanding issues made in its recommendations last year?

19 The Committee welcomes the Minster’s written response to recommendations made in 2002 and 2003. It would be helpful if the Executive responded as a matter of routine on future reports made by the Health Committee to the Finance Committee on budget matters.

Recommendation 2004/04: The Committee recommends that it should be standard practice for the Executive to send a written response to the recommendations made by the Health Committee relating to both the Annual Evaluation Report (in May) and the Draft Budget (in October). The Executive should supply this response within a month of receiving the Committee’s recommendations.
• In the context of the 2005-06 budget does the Committee wish to recommend any realignment of resources within the Department Expenditure Limit? Any increase must be balanced by a compensating reduction from other programmes within the portfolio.

20 The Committee continues to be frustrated by several aspects of the way the budget is presented.

21 The Executive continues to be unable to offer any evidence about the likely health outcomes of its preferred budget allocation as opposed to any other allocation. This makes it impossible to answer the Finance Committee’s question from an evidence-based perspective. If funding was moved from one budget heading and allocated to another then we have no way of knowing whether this would offer a net health benefit or not. Of greater concern to the Committee is that the Executive do not appear to have this information either. In November 2002, the Health Committee in its report to the Finance Committee on the draft budget recommended that the Executive should give a timetable for its review of different budget headings and their contribution to health outcomes. The Executive wrote to the Health Committee on 30/4/04 (Annexe P) but (i) the only work that has been initiated is in health promotion (which represents less than 5% of health spending) and (ii) no timetable has been set out.

22 The Committee notes there is very little information on how the £6 billion allocated to Health boards is used. The Committee pointed to the 80:20 rule in its last report to the Finance Committee, this being the tendency of Executive budget documents to give 80% of its attention to 20% of the spending. Around 80% of health spending is allocated by the fifteen Health boards, but other than a total allocation no detail is given of how this will be allocated. Indeed, the Committee has discovered that Health boards’ financial plans for the current financial year will not be finalised until June 2004, i.e. at the end of the first quarter of the financial year. Health boards receive their financial allocations in January of each year, and these are rarely a complete surprise. It is not clear why they are unable to finalise their financial plans until June. In the present document even the allocation to Health boards for 2005-06 is not available. According to Table 1 on page 40 of the Annual Evaluation Report, £6.8 billion will be allocated on the basis of the updated Arbuthnott formula but no further information is available. This is as big as the enterprise, justice, transport and environment budgets added together. Details of how this amount will be allocated would only be available if local health plans were aggregated. Based on the current year this work could not start until June 2005. The Executive might say that the 14 national targets for health determine spending. However, they also admit that they do not know how much is being spent on meeting these targets (see for example the oral evidence of the Chief Executive of NHS Scotland on waiting time targets, HC, September 2003, Col 241).
Recommendation 2004/05: As a matter of some urgency the Executive should start a programme of work that begins to identify and quantify the contribution of the main budget headings to health outcomes. A timetable for this work with an indication of when a final report will be available should be made available in writing to the Committee by the time it reviews the Draft Budget in autumn 2004.

Recommendation 2004/06: The Executive should ensure that all health boards have a financial plan for the period 2005-6 and beyond, finalised and in the public domain by the beginning of the financial year 2005-06.

- In the context of the forthcoming Spending Review which programme(s) should be given priority in the allocation of resources? If more than one priority is recommended these should be ranked and the case for the priority made?

23 In written evidence, the Committee has received suggestions that a higher priority should be given to:

(i) addressing demographic pressures – notably the increasing number of elderly people and the growing number of people living longer with a disability or chronic illness of some type (Association of Directors of Social Work(Annex N)); and

(ii) deprived areas, to address the excess number of premature deaths (Royal College of Physicians and Surgeons of Glasgow (Annex N)).

24 The Committee does not disagree with either of these points of view but, based on the data that the Executive has made available, it is not possible to say whether (i) these pressing priorities are also the very highest priorities and (ii) which programmes should receive a lower priority as a result.

- As the Executive’s budget strategy has been extensively revised and focussed on crosscutting themes the Committee’s views on the approach and its relevance to its responsibilities would be welcome. In short, is the Committee content with the new strategy?

25 The Committee enthusiastically welcomes the principle of cross-cutting. It is widely recognised that the determinants of health extend well beyond the scope of the NHS alone. The written evidence received by the Committee shows that there is also strong support for this amongst the organisations consulted, notably the BMA and RCGP, through its emphasis on a holistic approach that do not become obsessed with individual diseases.

26 The evidence of cross-cutting in the health chapter of the Annual Evaluation Report is minimal. The Committee notes some examples of the
contribution of health services to the themes in the introduction to the Annual Evaluation Report (e.g. investments as evidence of “excellent public services”, the Health Improvement Fund to reduce inequalities, an environmental policy for the NHS). It could also be argued that the inclusion of targets on elderly people living at home and free personal care for the elderly are evidence of joint working with social services. In general, however, the cross-cutting themes appear to be fairly peripheral to the health budget. The exception is “Excellent public services” but since this lists investments in NHS staff it is hard to see in what sense this is cross-cutting.

27 The Committee’s views are supported by written evidence from the Association of Directors of Social Work. They point out that the targets set do not reflect the contribution that non-NHS bodies can and should make to health.

- The performance reporting material sets out progress so far against portfolio targets. How does the Committee view that progress; does it consider the targets are challenging enough and are they appropriate; and does it feel there are any gaps in the targets?

28 The following table summarises the targets set by the Executive and comments on the progress made:
<table>
<thead>
<tr>
<th><strong>Target</strong></th>
<th><strong>Comment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce mortality rate in people under 75 from CHD (by 50%), cancer (20%) and stroke (50%)</td>
<td>CHD: At present rate of progress target will be achieved by next year, five years ahead of schedule.  Cancer: On course.  CVD: Similarly this target is on course and is likely to be met before 2010. It should be noted that the fall in mortality rates from CHD and stroke in this age group preceded the target being set and appears to be simply a continuation of an existing trend.</td>
</tr>
<tr>
<td>Deadline: by 2010</td>
<td></td>
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<tr>
<td>Smoking prevalence from 35% in 1995 to 33% by 2005 and 31% by 2010</td>
<td>Some progress but unclear how data will be monitored. SEHD should make clear how it will know whether this target has been achieved. At present, they are relying on the Scottish Health Survey, which only happens every three years.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Excess alcohol consumption reduced in men from 33% in 1995 to 31% in 2005 and 29% in 2010, and in women from 13% to 12% to 11%</td>
<td>Same comment on data sources as for smoking reduction. Slippage on this item – require evidence SEHD is taking action with proven effectiveness.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary care access within 48 hours</td>
<td>The SEHD says this target has been achieved. The evidence cited is that all Health boards have confirmed compliance.</td>
</tr>
<tr>
<td>Deadline: by April 2004</td>
<td></td>
</tr>
<tr>
<td>Out patient maximum wait of 6 months</td>
<td>It is claimed this target is on course although no data are provided to back this up. Various actions reported although no attempt to estimate what these cost.</td>
</tr>
<tr>
<td>Deadline: by end 2005</td>
<td></td>
</tr>
<tr>
<td>Cancer maximum wait from urgent referral to treatment of 2 months</td>
<td>The document describes work to set up data collection systems, but despite these apparently not being in place it is claimed that this target is on course. No supporting evidence is cited. However the Committee knows that local Health boards have data on this measure so it is not clear why SEHD has not collated this and made it available. In October 2003 the Health Committee noted from the Draft Budget document of that year that the first data report was expected for quarter ending 31/12/05. It is not stated whether data can now be expected any earlier than this.</td>
</tr>
<tr>
<td>Deadline: by end 2005</td>
<td></td>
</tr>
<tr>
<td>Target</td>
<td>Progress/Information</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
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<tr>
<td>In-patient maximum wait of 6 months</td>
<td>The number waiting more than six months fell between 31/12/02 and 31/12/03. It is not stated whether this was a sustained fall. Various actions are reported but not the total cost.</td>
</tr>
<tr>
<td>Deadline: by end 2005</td>
<td></td>
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<tr>
<td>Bring 12,000 nurses and midwives into NHS</td>
<td>Various figures are reported but it is not clear whether these support the claim that the target is on course.</td>
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<tr>
<td>Deadline: by 2007</td>
<td></td>
</tr>
<tr>
<td>Publish clinical quality framework</td>
<td>This target should have been completed by now. In October 2003 the Draft Budget stated that QIS was consulting on a draft. The current AER says that it is developing a draft. Clarification is required together with a new target date.</td>
</tr>
<tr>
<td>Deadline: by April 2004</td>
<td></td>
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<tr>
<td>Significant progress on hospital hygiene &amp;</td>
<td>It is claimed that the first part of this target has been met. However: (i) this appears to be based on data from 2002, with no evidence presented at all for 2003, and (ii) since no attempt was made to define “significant progress” this is debatable. In October 2003, the Health Committee requested that SEHD set SMART targets in this area but this has been ignored.</td>
</tr>
<tr>
<td>infection</td>
<td></td>
</tr>
<tr>
<td>Deadline: by April 2003 and each year after</td>
<td></td>
</tr>
<tr>
<td>Progressively enable a greater number of</td>
<td>This has persistently been interpreted by SEHD as a target on the reduction in delayed discharges from hospital. While these are related in some way, “elderly people living alone” seems to be a far broader context. It is not clear whether this is SEHD’s contribution to a cross-cutting policy but if this target exists it has not been made clear. Data from April 2003 are cited because “this was the final measurement point for performance against targets set in the Scottish Executive’s 2002 Action Plan.” It is not clear why this is a limitation and why more recent data have not been used.</td>
</tr>
<tr>
<td>elderly people to live and be cared for in</td>
<td></td>
</tr>
<tr>
<td>their own homes</td>
<td></td>
</tr>
<tr>
<td>Deadline: each year to March 2006</td>
<td></td>
</tr>
<tr>
<td>Ensure all those with unmet need for free</td>
<td>It is not clear what the total need for free personal care is, or what the extent of unmet need is. No data are available so there is no evidence that it is “on course” as claimed.</td>
</tr>
<tr>
<td>personal care are identified and receive</td>
<td></td>
</tr>
<tr>
<td>services needed</td>
<td></td>
</tr>
<tr>
<td>Deadline: by 2005</td>
<td></td>
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</tbody>
</table>
29 Of the 14 targets, it is claimed that 12 are on course, the exceptions being reductions in excess alcohol consumption and the publication of the NHS Quality Improvement Scotland framework for improving the quality of care.

Recommendation 2004/07: The Executive should set out action plans for the two targets that are acknowledged not to be on course, making clear what the evidence is that the actions proposed will impact upon the target and quantifying the expected effects.

30 Of the 12 targets that are said to be on course:

- 4 have data that directly supports the claim – these are the three premature mortality targets plus smoking prevalence reductions. In the case of men, the smoking target has already been achieved, well ahead of the 2010 deadline. Similarly, the CHD mortality reduction target and the stroke target will be achieved in the next year or two, several years ahead of schedule. The Committee notes that there is evidence that in several cases the trends to a reduction in these factors pre-dated the setting of a target and we may simply be observing a long-term trend.

- 3 targets have some quantitative data (waiting times for in-patients, number of nurses/midwives, older people living at home)

- 5 targets have no quantitative data on progress (primary care access, OP waiting times, cancer waiting times, hospital hygiene, meet need for free personal care)

31 The targets seem ripe for an overhaul on at least three grounds. Firstly, several of them still do not adhere to SMART principles for target setting, although the Committee welcomes the Minister’s approval of this principle (HC, Col 804). Secondly, there is considerable redundancy in the existing targets: two targets have now passed their deadline, three other 2010 targets will be met in the next year or two, and two targets relate to social care that does not have a direct bearing on the health portfolio. Thirdly, written evidence received by the Committee has challenged some targets. For example:

- the BMA states the smoking reduction target is not sufficiently demanding – the evidence that men have already achieved this target six years ahead of schedule suggests the BMA is right and that the targets for both men and women should be revised and made much more challenging;

- the RCN states that the target for nursing/midwife increases only relates to additional staff and takes no account of the numbers of nurses and midwives. The Committee is concerned about this but intends to pursue the issue in the course of its review of workforce issues later in 2004.

32 In terms of the targets that have been selected, these could be broadly grouped as follows:
• 3 on premature mortality reduction
• 2 on lifestyle change (smoking, alcohol)
• 5 on public confidence in the NHS (4 waiting times, 1 on clean hospitals)
• 1 on infrastructure investment (nurses/midwives)
• 2 on social care

33 The Executive should review this balance. The Committee notes that there are no targets on the reduction of postcode prescribing (or the use of evidence-based services more generally), public involvement or service redesign.

**Recommendation 2004/08: The 14 targets should be completely overhauled. New targets should include measures of the implementation of evidence-based health services and infrastructure investments. New and revised targets should all adhere to the SMART principles. In setting targets evidence should be presented on existing time trends in the data so that it is clear that the Executive proposes to improve on historical performance.**

• What written evidence is available to the Committee in making its recommendations, and from which individuals and organisations did it take evidence?

34 The Committee wrote to the following organisations and individuals for advice (bold font denotes those from whom a reply was received):

Scottish NHS Confederation; Institute of Healthcare Management; Royal College of General Practitioners; Royal College of Physicians and Surgeons; BMA Scotland; RCN Scotland; UNISON Scotland; Amicus; UCATT; GMB; TGWU; STUC; NHS Board Chief Executives’ Group; Directors of Public Health Group; Association of Scottish Health Councils; Association of Directors of Social Work; ABPI Scotland; Kings Fund; Scottish Consumer Council; CoSLA; Professor Alan Maynard, University of York; Dr. Richard Cookson, University of East Anglia; Professor James Raftery, University of Birmingham; Professor Nancy Devlin, City University, London; Professor David Hunter, University of Durham; Dr Maria Goddard, University of York; Dr Diane Dawson, University of York; Dr Sean Boyle, London School of Economics.

35 A number of organisations and individuals indicated their interest in the Stage 1 budget process but were unable to respond in detail due to the timescale. The Committee notes the very tight deadlines for seeking evidence and hopes that next year more time will be available.
The Committees report to the Parliament as follows—

Introduction

1. The Justice 1 and Justice 2 Committees have considered Stage 1 of the 2005-06 budget following publication of the new revised format Annual Evaluation report. The new style report provides updated expenditure plans for 2005-06 and an assessment so far of performance against portfolio targets previously set.

2. The Committees discussed their approach to the process this year and agreed that evidence taking at this Stage should concentrate primarily, but not exclusively, on the budgetary provision for tackling crime. The Committees took oral evidence on 21 April, 28 April and 4 May from the Crown Office and Procurator Fiscal Service (COPFS), the Scottish Court Service, the Procurators Fiscal Society, the Association of Chief Police Officers (Scotland) (ACPOS), the Association of Scottish Police Superintendents (ASPS), Scottish Executive Justice Department officials, the Lord Advocate and the Minister for Finance. Their evidence is included in Annexe Q to this report.

3. The Committees also considered position papers from COPFS, SCS, the Scottish Executive Justice Department, ACPOS/ASPS (jointly) and the Procurators Fiscal Society and written evidence from the Chief and Assistant Chief Fire Officers Association (CACFOA), Fire Brigades Union (FBU), Safeguarding Communities - Reducing Offending (SACRO), the Association of Directors of Social Work (ADSW) and the Scottish Prison Service (SPS).

Cross-Cutting “Tackling Crime” Budget

4. In their October 2003 report to the Finance Committee on the draft 2004-05 budget, the Committees commented that it was difficult for them to assess the adequacy or otherwise of the full range of Executive resources allocated to the stated priority of tackling crime and recommended that budget information should be presented on a programme, rather than purely Departmental, basis.1 This comment and recommendation was prompted by the Minister for Justice’s

1 Justice Committees 1 & 2 Report J1/03/13/2, J2/03/13/2 paragraph 3, “The Committees recommend that budget information also be presented on a programme basis (for example, ‘Justice’ or ‘tackling crime’) rather than simply on a Departmental basis as is the current practice.”
argument that the Justice budget should not be looked at in isolation and that other Executive budgets - for example, Education and Communities - also contributed to tackling crime. The Minister made this point again in evidence this time using the examples of funding for tackling antisocial behaviour and dealing with youth justice which sit in other budget lines.

5. The Committees pursued this recommendation when taking evidence from Justice Department officials and the Minister for Justice and, while recognising the task involved in disaggregating the full range of Executive budgets which were relevant to tackling crime, welcome the work which has started within the Executive on this matter. The Committees recommend that the Executive should produce a composite "tackling crime" budget for 2005-06 (and, if possible, earlier years for comparison purposes) within the next few months and ideally in time for Stage 2 of the 2005-06 Budget Process.

6. The Committees also believe that the Executive should go further and therefore now recommend that "tackling crime" should be formally designated as a cross-cutting priority with budget information provided accordingly in order to recognise the contribution which Executive budgets, other than Justice and the COPFS, make towards delivering on this crucially important objective.

Response to Questions Posed by Finance Committee

7. The Committees concentrated on two key questions posed by the Finance Committee’s Guidance to Subject Committees, namely:

7.1 Do the Committees wish to recommend any realignment of the proposed 2005-06 budget within Departmental Expenditure Limits? and

7.2 Which programmes to the Committees think should be given priority in the 2004 Spending Review?

Proposed 2005-06 Budget

8. As regards the first of the above questions, with the exception of CACFOA and the FBU, those who gave evidence to the Committees were broadly satisfied that the proposed 2005-06 budget for their service area was adequate. So far as the Fire Service is concerned, the Committees note that discussions are

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2 At Col 62 Official Report 1 October 2003: the Justice Minister says: “It is not only the Justice Department or the justice budget line that will deliver on tackling crime. I have a responsibility to work closely with my colleagues—particularly with those with responsibility for education and communities—to ensure that resources are allocated in other departmental spending lines to assist in dealing with the priorities.”

3 Col 236, OR 4 May 2004, Minister for Justice

4 At Col 239 Official Report 4 May 2004, the Minister for Justice indicated: “For example, some of the Enterprise and Lifelong Learning Department's work on the new futures fund relates to crime.”

5 At Col 239 Official Report 4 May 2004, the Minister for Justice said: “I know that the committee has expressed an interest in scrutinising spend across programmes rather than across portfolios. I suspect that that would require a shift in how budget information was presented to the committees. At the moment, we are trying to present the information in the required format. If we must present it in a different format, we can do so. I do not think that it would do any harm to consider the matter on a cross-cutting basis, because other departments' policies clearly impact on certain areas.”
continuing between the Executive and the Service about the issue of transitional funding for the fire-fighters 2003 pay agreement. In all the circumstances, the Committees do not wish to recommend any realignment of either the Justice or the COPFS budget.

9. The Committees heard evidence\(^6\) that the current criminal justice system reforms have been leading to better partnership working and hope that this work will continue and lead to a more joined-up, cost efficient system which will be effective in tackling crime. In this connection the Committees would stress that any efficiency savings which are achieved as a result of the criminal justice reform programme should be retained within the criminal justice system and utilised to resource further improvements.

10. The Committees do, however, have a concern about the adequacy of the COPFS budget. This concern was prompted, in part, by the evidence submitted by the Procurators Fiscal Society regarding the pressures currently facing COPFS staff. It is fully recognised that the COPFS is facing a large change agenda in the light of both the increase of nearly 40 per cent in its budget in 2003-04 and the recommendations contained in the Normand\(^7\) Bonomy\(^8\) and McInnes\(^9\) Reports. The Committees very much welcome the developments which have taken place in COPFS in the past two years, but are concerned about the extent to which it is assumed that efficiency savings arising from IT investment and the elimination of inefficiencies will help fund future growth in the Service’s resources.

11. The Committees were grateful to receive information about the efficiency savings which have been factored into the COPFS budget for 2005-06.\(^{10}\) But, against the risk that not all of the assumed savings will actually be realised, the Committees believe it is important that some contingency margin is built into the COPFS budget for the next three years in order to ensure that, if necessary, additional staff, particularly Procurator Fiscals Depute, can be recruited, that the change agenda is fully implemented and that the Service can play its full part in improving the criminal justice system. The Committees, therefore, recommend that a contingency should be built into the COPFS budget for financial years 2005-06, 2006-07 and 2007-08.

2004 Spending Review

12. The Committees found it difficult during evidence taking to engage in meaningful discussion with Executive witnesses about the 2004 Spending Review as Ministers and officials were reluctant to speak publicly about a process which clearly still has a long way to go within the Executive. Nonetheless, based on evidence which was received, the Committees wish to make the following points in relation to the Spending Review:

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\(^{6}\) Col 219, OR, 4 May 2004, Lord Advocate

\(^{7}\) Normand report “Proposals for the Integration of Aims, Objectives and Targets in the Scottish Criminal Justice System”, March 2003

\(^{8}\) Bonomy report “Review of the Practices and Procedure of the High Court of Justiciary” December 2002

\(^{9}\) McInnes report “Report of the Summary Justice Review Committee” March 2004

\(^{10}\) COPFS written submission, J1/S2/04/17/2, J2/S2/04/17/2
12.1 The budget for the whole “tackling crime” cross-cutting priority should be a high priority for the Executive in the Spending Review;

12.2 The COPFS budget should be set at a level which ensures that the desired improvements in the Service can be delivered without reliance on the need to achieve a particular level of efficiency savings;

12.3 Any efficiency savings which are achieved as a result of the criminal justice reform programme should be retained within the criminal justice system and used to further improve it;

12.4 The Committees welcome the proposed increase of 8 per cent between 2004-05 and 2005-06 in the provision for Offender Services within the Community Justice Services budget, but subject to the outcome of the Executive’s current consultation on reducing re-offending, recommend that additional resources are considered for these services as part of the 2004 Spending Review;

12.5 Extra provision should be made in the 2006-07 and 2007-08 Police GAEs to enable the Scottish Police Service to fund an accelerated recruitment programme in those years to help offset the loss of experience from 2009-10 when officers who joined the Service following the 1978 Edmund-Davies Report became eligible for retirement. The implications for the Fire Service of the loss of experienced officers should also be considered; and

12.6 The SCS capital budget should be a priority in the Review to ensure that all Courts are fit for purpose having regard to, for example, Disability Discrimination and Vulnerable Witness legislation.

Targets

13. In the time available to them, the Committees were unable to consider Justice Department and COPFS targets in detail. The Committees note and agree with the ACPOS view that the Justice Target 2 relating to the seizure of Class A drugs should be revised to relate to the weight of drugs seized rather than the number of seizures\(^\text{11}\) and noted that the Justice Target 3 relating to reducing the fear of crime is being revised in the light of the conclusions of an ACPOS led Working Group.

14. The Committees reached the following two main conclusions regarding targets:

\(^{11}\) At Col 172 and 173 OR 28 April 2004 Chief Constable William Rae stated: “We have been involved with the Scottish Drug Enforcement Agency, and other organisations that have interests in drug issues, to get away from a simple head count and move towards using a system of indicators that takes the weight of drugs into account. We feel that we need a better measure of the quantities of drugs that are being taken off the streets, rather than just the number of people who are being arrested. The process is developing and, as we learn from information on earlier performance, we are trying to make it more sophisticated.”
14.1 The Committees recognise that the previous aspirational target of ending slopping out in prisons by 2005 will clearly not now be met. Whilst welcoming the Minister for Justice’s announcement of 12 May 2004 which included details of measures being taken to accelerate the ending of slopping out, the Committees nevertheless recommend that the Executive should set new targets for progressively reducing and ultimately ending slopping out. The Committees expect that the new target dates will be as early as possible and recommend that, if required, the budgetary implications of meeting those dates should be a priority for the 2004 Spending Review; and

14.2 While recognising the difficulty in determining the baseline, the Committees recommend that a suitable target should be developed for the Executive’s stated priority of tackling persistent offending to allow a future assessment to be made as to whether or not persistent offending is actually being curbed.

Conclusions and Recommendations

15. Following their scrutiny of the Draft Budget 2005-06, the Justice 1 and Justice 2 Committees make the following recommendations:

Cross-cutting priority
a. “Tackling Crime” should become a formal cross-cutting Scottish Executive priority and budget information should be provided on a programme basis rather than simply on a departmental basis, as is the current practice;

Budget information
b. The Executive should produce a composite “tackling crime” budget for 2005-06 (and, if possible, earlier years for comparison purposes) and provide it to the Committees in time for Stage 2 of the 2005-06 Budget Process;

Spending Review 2004
c. The whole of the cross-cutting “tackling crime” budget should be a high priority for the 2004 Spending Review. Within the overall total, particular priority should be given to the following programmes:
   i. Community Justice Services - with a view to further increasing the provision for Offender Services;
   ii. Police GAE - to fund an accelerated recruitment programme to help offset the loss of experienced officers from 2009-10. Similar action
should be considered for the Fire Service;

iii. Scottish Courts Service capital programme - with a view to ensuring that all courts are fit for purpose.

*COPFS budget*

d. A contingent margin should be built into the COPFS budget for the next three years to ensure that the Service’s reforms can be delivered without reliance on assumed efficiency savings;

*Efficiency savings*

e. Any efficiency savings achieved as a result of the criminal justice system reform programme should be retained with the system and used to further improve it;

*Slopping out*

f. New targets for progressively reducing and ultimately ending slopping out in prisons should be set and, if required, the budgetary implications of meeting the targets should be a priority for the 2004 Spending Review;

*Tackling persistent offending*

g. A suitable target should be developed for the Executive priority of tackling persistent offending so that in future an assessment can be made as to whether or not persistent offending is actually being curbed.
Local Government and Transport Committee

Report to the Finance Committee on Stage 1 of the 2005-06 Budget Process

The Committee reports to the Finance Committee as follows—

INTRODUCTION

The Annual Evaluation Report
1. The Annual Evaluation Report (AER)\(^1\) document published on 31 March 2004 formed the basis of subject committees’ discussions on the 2005-06 Scottish Executive budget at stage 1 of the annual budget process.

2. The AER document does not contain any new spending figures for 2005-06. Instead, it sets out (with some minor adjustments) the same expenditure figures as were contained in last year’s budget document\(^2\), as ‘baseline’ figures for the forthcoming spending review. Updated budget figures for 2005-06 will only be provided in this year’s draft budget document, due for publication in September 2004. This document will take account of decisions taken during the 2004 Spending Review. The AER does, however, contain the Scottish Executive’s assessment of how it has performed against various key performance targets.

Budget timetable
3. The Local Government and Transport Committee, like all subject committees, was set a tight timescale by the Finance Committee to consider the AER document at stage 1 of the Budget Process. This meant that it was possible to allocate two meetings to consider the AER document, following its publication.

4. The Committee took oral evidence on the budget from the Society of Chief Officers of Transportation in Scotland prior to the AER document being published (16 March 2004), followed by the Minister for Transport on 20 April 2004, and COSLA and the Deputy Minister for Finance and Public Services on 27 April 2004. The Committee is grateful to the witnesses who gave evidence to the Committee.

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5. The Committee appointed Colin Mair, Director of the Scottish Local Authorities Management Centre, to the post of Committee budget adviser, to assist its consideration of the budget.

SUMMARY OF RECOMMENDATIONS

6. In relation to the local government budget, the Committee—

- Recommends that a single consolidated statement of all Executive support for local authority capital investment is provided, as the best way of avoiding confusion in the transition to prudential borrowing (paragraph 17);

- Remains of the view that the idea of a base budget, as opposed to a base year, implies adequacy for purpose (paragraph 22);

- Restates its previous recommendations that general and sectoral trends should be taken into account in estimating inflations, and that a framework for monitoring pay and cost trends should be agreed between the Executive and COSLA (paragraph 30);

- Recommends that consideration is given to developing realistic targets for efficiency improvement in service delivery, and for the control of “backoffice” costs, across the spending review 2005-06 to 2007-08. The Committee recommends that any targets should be set for year 3 of the settlement (paragraph 33);

- Recommends that renewal and updating of targets is carried out across the next spending review period (paragraph 35);

- Recommends that all future targets are clearly stated and that an indicative specific timescale is attached to them (paragraph 37); and

- Recommends that the Finance Committee reflects on options for more effective scrutiny of the finance-strategy-performance link within the local government budget (paragraph 40).

7. In relation to the transport budget, the Committee—

- Recommends that transport should be more explicitly identified as a priority for the Executive within its overall programme (paragraph 43);

- Recommends that the Executive should be more ambitious in setting targets for rail passenger growth (paragraph 48);

- Recommends that targets which have been met, or appear well on course to being met, should be updated as a matter of urgency (paragraph 49);

- Reiterates its previously held views that targets should be more consistent and easily comparable; that they should be sufficiently ambitious; and that they should be reviewed and updated during the monitoring period as required (paragraph 53);
• Recommends that the Executive should publish a clear statement, either in the AER or in a separate document, of the transport projects to which it is committed and the timescale for delivery of the projects (paragraph 59);

• Recommends that these delivery dates should be accompanied by a statement outlining what progress is required to achieve delivery of the projects (paragraph 61);

• Requests an update on the outcome of discussions between Executive departments on meeting potential skills shortages (paragraph 65);

• Recommends that the proposed new transport agency is as streamlined as possible, so a substantial proportion of the budget allocation is spent recruiting professionals with practical transport expertise (paragraph 67);

• Recommends that there is a strategic discussion at a national and a local level regarding what standards of maintenance, and what targeted funding, are required for the road network. This discussion should be focused on outcomes and need, rather than simply GAE spending (paragraph 75); and

• Recommends that the Minister for Transport provides the Committee with full information regarding the budgetary impact of recent changes affecting transport institutions, as soon as it is available (paragraph 82).

LOCAL GOVERNMENT BUDGET

Introduction

8. The Committee noted the format of the new Annual Evaluation Report and the guidance for subject Committees from the Finance Committee. The Committee sees the sense of a focus on strategy and performance in stage 1 of the budget process, particularly in a spending review year. However, the request that subject Committees “consider and report on future spending priorities within their responsibilities”\(^3\) posed particular difficulties with respect to the local government element of the Committee’s remit for three reasons.

9. First, substantive programmes and priorities delivered by local government are largely dealt with in other Executive portfolios and scrutinised by other subject Committees (Communities, Justice, Education and Young People, Health and Community Care etc). For example, most of the priorities and targets in the Education and Young People portfolio will be delivered by local government, thus most of the funding is within AEF which the Local Government and Transport Committee scrutinises. However, policy and performance scrutiny has been with that subject Committee.

10. Second, and consequently, the core local government budget as presented to the Committee is not organised in programme terms. It is an aggregate statement of revenue and capital support for Local Government (ie AEF and supported borrowing). However, only allocations from other Executive portfolios

\(^3\) Finance Committee Guidance, paragraph 1
are linked to service programmes but these are normally scrutinised by other subject Committees. Allocations accounted for by other portfolios, and scrutinised by other subject Committees, comprise less than 10 per cent of the total allocations to Local Government.

11. Third, this has created a past division of labour whereby the Local Government and Transport Committee scrutinised how local government was funded, and the adequacy of core funding, but not what it spent the money on and what it achieved. Other subject Committees scrutinised the programmes and priorities that local government delivered but not the core financial arrangements and allocations that underpin delivery.

12. The Committee accepts that it may have construed the remit of its budget scrutiny narrowly in the past, and that it could extend its scrutiny activity to substantive programmes and priorities in the future. This would, however, require a co-ordinated approach with other subject Committees and probably require more time than is possible within the current stage 1 timetable. Further comment on this is provided below.

13. For these reasons, the Committee focused its scrutiny on three related matters:


- Progress on the Committee’s previous recommendations, particularly in the light of spending review 2004.

- The Executive’s performance against the portfolio targets for 2003-2006, and the appropriateness of the targets themselves.

14. Following the guidance from the Finance Committee, the Committee also makes comment on the revised budget strategy, and its relevance to the Committee’s particular remit.

**The spending plan for 2005-06**

15. The Committee welcomes clarification of the net growth in planned AEF of £56 million in the Annual Expenditure Review 2005-2006 in comparison to the Draft Budget 2004-2005. Further written details of the composition of the net growth were promised by the Executive and the Committee may comment further once they are received. The Committee also welcomes the provision of detail on the proposed allocations from other Executive portfolios to local government, in line with its previous recommendation, so that the total support to local government from all Executive sources is presented.

16. The Committee was less satisfied with the presentation of local government capital in the Annual Expenditure Review which it felt, in the absence of substantial prior knowledge, was confusing and potentially misleading. The Committee fully accepts the need to move from the “single allocation” to the
“supported borrowing” classification as a consequence of the introduction of the prudential borrowing regime. It also welcomes clarification in evidence from the Executive that:

“Part of that transition involved a transfer from section 94 consent to capital grant, so in some of the other portfolios’ capital grant lines you will see an increase that explains the reduction between the single allocation last year and the supported borrowing figure for this year and provisionally for 2005-06.”

17. The Committee’s view is that anyone dependent on the textual guidance in the AER 2005-2006 would struggle to make clear sense of this. This is partly because Executive support for local authority capital investment is spread between two separate tables in the AER (tables 11.01 and tables 11.02) and the nature of Executive support (support for loan charges, capital grants) is not clearly stated. The Committee remains persuaded that its previous recommendation, that a single consolidated statement of all Executive support for local authority capital investment be provided, is the best way of avoiding confusion in the transition to prudential borrowing. Differentiation within that statement by type of support would provide further clarity. The Committee recognises that the Executive has sought to be both transparent and helpful on this matter, but we are not convinced that current presentation works in that way.

18. The Committee welcomes the provision of estimates of the likely borrowing by local authorities through the prudential regime, but thinks it misleading to present that as part of the Executive’s spending plans. As by definition, and guidance, prudential borrowing is planned, controlled and funded by councils themselves, it is not, and does not imply, spending by the Executive itself. Again, the Committee accepts that the Executive has sought to be helpful, but feels that annual monitoring statements separate from the Executive’s own budget proposals would be preferable. The Committee has previously recommended that such statements be provided, and restates this as the best way to provide the relevant information without creating a misleading impression of the Executive’s own spending plans.

19. Finally, the Committee welcomes the Deputy Minister’s statement that he—

“Will be happy to look closely at how we might better identify and badge the components of local government capital spending.”

Progress on recommendations: Spending Review 2004

20. The Committee made extensive recommendations in its stage 1 report on the Executive’s budget for 2004-05. Given the spending review this year, it seemed sensible to pursue progress on recommendations in that context. With respect to the spending review, the key recommendations were:

- That the “base” or “core” Local Government budget be quantified and agreed as a basis for identifying the ongoing cost of existing, agreed programmes

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4 Col 824
5 Page 86, paragraph 3
6 Col 826
and services. Growth and new initiatives would be funded over and above that.

- That outcome agreements be developed as a basis for satisfying the Executive that its priorities were being delivered while allowing Councils the greatest flexibility in deciding how they were delivered locally on a cost effective basis.

- That the treatment of inflation should take account of “general and sectoral” pay and price pressures and the adequacy of initial estimates should be monitored across a spending review period.

- That assumptions about efficiency or productivity gain should be explicit.

**The Base Budget**

21. The Committee was gratified to hear in evidence from COSLA and the Executive that considerable progress had been made in identifying and quantifying the base budget. COSLA noted that its priority for SR 2004 was “securing a base budget” and the Executive noted that a substantial measure of agreement now existed on this matter. The Deputy Minister said in evidence that the Executive would respond to COSLA’s initial estimate of the base budget and address areas of disagreement. The Committee would welcome further information on any end agreement that follows from the discussions. The Committee also welcomes the commitment to transparency exhibited both by the Executive and COSLA in evidence.

22. The Committee notes that COSLA’s stance on the base budget appeared to have shifted from that implied by evidence it previously gave to the Committee. Formerly the “base” was seen as the amount necessary to fund agreed services to a given level and quality, but now the “base” seems to be defined as the monies that have actually been made available through AEF, and finance circulars. The Committee remains of the view that the idea of a base budget, as opposed to a base year, implies adequacy for purpose. The Committee recognises that COSLA is using growth proposals to the spending review to address issues of historic underfunding but would be concerned if any agreement of the ‘base budget’ did not address issues of adequacy for purpose.

23. The Committee recommended in its stage 1 report on the 2004-05 budget that cash growth in AEF and other support for local spending be broken down into provision for pay and price inflation, provision for growth in existing services, and provision for new initiatives. Assuming agreement about the base budget, the adoption of this recommendation would provide a high level of clarity on the local government settlement decided by the spending review. The Committee accepts that “timing and handling” issues will always exist in publishing the details but thinks the framework proposed might provide a way of structuring the aggregate financial presentation.

**Outcome agreements**

24. The Committee notes and welcomes the commitment from both the Executive and COSLA to the development of outcome agreements. It particularly welcomes the Deputy Minister’s statement that the Executive will ensure that
“clear, demonstrable and transparent”^7 outcomes will be in place for 2006-07 and 2007-08. The Committee is expecting a report in June 2004 on the development of outcome agreements and will comment in detail subsequently. Here we would raise only two points.

25. First, from the example given by COSLA in evidence, there seems a risk of confusion between outputs and outcomes. As the whole purpose of outcome agreements is that local flexibility about the balance of inputs and outputs would exist as long as outcomes were achieved, the Committee thinks it important that rigour in outcome definition is achieved.

26. The second point, however, is that financial planning requires that the cost of achieving outcomes is calculated, but it is difficult to see how this could be done at a national level without making standardised assumptions about inputs and outputs. COSLA, in evidence, suggested that it had costed outcomes in its spending review work, but the Committee’s view is that substantially more work may be necessary to get to a robust link between finance and outcomes. The Committee will welcome future information on the costing of outcomes and accepts that in the interim output measures may have to act as substitutes for outcomes.

Inflationary pressures

27. In its written evidence, COSLA stated it was seeking a “realistic view” of pay and price pressures in the spending review. In its oral evidence to Committee “realistic” was defined in terms of the prevailing national and local economic conditions and movement in indicators such as the consumer prices index or the retail price index. It was accepted, however, that if COSLA negotiated statements above a reasonable provision for inflation then councils would have to find the difference themselves. The thrust of COSLA’s evidence was to support an evidence based approach to estimating and monitoring inflationary pressures.

28. The Deputy Minister indicated in his evidence that the spending review will include discussions with COSLA, and other partners, on pay and price pressures but indicated concern that an explicit statement about pay assumptions might have an impact on pay negotiations themselves. The Committee accepts that a public announcement of pay assumptions would run the risk of becoming a self fulfilling prophecy, and might set a baseline for pay negotiations. However, COSLA, in its role as an employer, would have little interest in that either.

29. The Committee has previously recommended that “general and sectoral” pressures be taken into account in making provision for inflation and, rather than a figure being stated at the outset, it may be useful to agree factors that will be taken into account in monitoring inflationary pressures across the spending period. COSLA’s general reference to national and local “conditions” needs to be made more precise and might include inter alia:

- Measured increases in cost of living, including housing costs
- General year on year input cost movements across the economy

^7 Col 827
• Related public sector pay and price movements

• Recruitment and retention problems in particular services or sectors

30. Overall, the Committee restates its previous recommendations that general and sectoral trends should be taken into account in estimating inflations, and that a framework for monitoring pay and cost trends should be agreed with COSLA. We further recommend that the factors noted above should form part of the framework.

Efficiency improvement

31. Given the new statutory Best Value regime, the potential for partnership gains through Community Planning, and the greater flexibility afforded by the power to advance well being, the Committee pursued the issue of efficiency improvement in taking evidence from COSLA. COSLA’s position\(^8\) appeared to be initially that any efficiency gains achieved should be kept and reinvested by individual councils on local priorities. Given local government is allocated around one third of the total Scottish Executive budget, the Committee does not accept that as a credible and sustainable position. It would not be inherently unreasonable to seek efficiency gains in the local government settlement to enhance investment in national priorities elsewhere (for example, higher education, health etc.)

32. The Committee is sympathetic to COSLA linking the issue of efficiency to that of agreeing what the base budget actually is, but notes the corollary that if the base budget is agreed efficiency improvements could also be agreed.

33. The Committee is supportive of the Deputy Minister’s remarks on best use of resources and focussing additional resources on front line services.\(^9\) However, it also accepts COSLA’s point that assumptions about efficiency gains should be explicitly stated and monitored. The Committee recommends therefore that consideration be given to developing realistic targets for efficiency improvement in service delivery, and for the control of “backoffice” costs, across the spending review 2005-06 to 2007-08. Accepting COSLA’s point that a period with clarity and stability about the base budget would be useful, the Committee recommends that any targets should be set for year 3 of the settlement. This also gives Best Value and Community Planning a chance to bed down and deliver.

Relevance of portfolio targets

34. Of the targets stated under the Finance and Public Service Portfolio, 10 (out of 20) relate to local government. Half of these are targets for legislation and guidance being issued, and the rest are for initiatives to be led by the Executive itself – creation of an improvement service; review of boundaries of public agencies etc. Although local authorities are allocated 90 per cent of the monies in this portfolio, all the targets stated are for the Executive itself.

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\(^8\) Col 811
\(^9\) Col 820
35. The targets are stated for 2003-2006 (the current spending review period) and most of the legislative and guidance targets have been met or are in the process of being met. (The Committee notes that the Executive has been very effective in developing local government legislation and guidance). The Committee understands that targets are set for the spending review period and that keeping fulfilled targets on the list may aid accountability, but it has concerns that this gives a static and dated appearance to the portfolio statement (a number of key targets were meet in year 1). The Committee’s view is that renewal and updating of targets between spending reviews is more in keeping with the commitment to “continuous improvement” that the Executive is rightly encouraging in local government. **The Committee recommends that this be done across the next spending review period.**

36. A second point the Committee notes is that all the targets stated are for the delivery of outputs, not outcomes, and no outcome measures are provided at all. Presumably the outcome wanted is more efficient, effective and responsive public services, not the delivery of legislation and guidance on Best Value. Even if it is hoped the latter will deliver the former, we still need an outcome measure. The Committee would welcome even more an outcome measure for the review of local government finance in terms of the delivery of a fairer, more efficient and more accountable finance system. We would strongly recommend that targets for the next Spending Review period are stated in outcome as well as output terms.

37. Finally, the Committee notes that a number of targets are loosely defined and without a specific timescale (for example, the Independent Review of Finance; Review of Boundaries to Improve Joint Working). While not wanting to impose a straightjacket on sometimes complex matters, a degree of precision about content and timescale is essential to a target being a target. **The Committee recommends that all future targets are clearly stated and that an indicative specific timescale is attached to them.**

**The budget strategy and the committee’s remit**

38. The final issue subject Committees were asked to address is the degree to which the revised budget strategy, “focused on crosscutting themes”, fits the remit and responsibilities of the Committee. As indicated earlier, the answer for the local government part of the Committee’s remit is that it does not fit comfortably. The Committee scrutinises the funding of local government, the general trends in that funding and the technicalities of how it is quantified. It does not, however, examine substantive policy or performance issues in terms of what the money is spent on and what it achieves. Other Subject Committees examine substantive policy and performance issues with respect to Local Government, but have only marginal responsibilities for its total funding.

39. It might be possible for the Committee to extend its scrutiny to Education, Housing, Community Care etc. as these all fall within local government and local government finance. However, existing subject Committees already scrutinise these matters and duplication of work and, potentially, divergent recommendations by different Committees would be unhelpful. As the local government budget links to almost all Executive portfolios, the workload, and expertise needed, to scrutinise across the range would be very high.
40. A more plausible approach might be to provide AEF information on their service areas to other subject Committees so that they can examine the total relevant budget rather than only those elements additional to AEF. The Committee can see no easy answer to this issue within the current Committee remits, but recommends that the Finance Committee reflects on the comments above and considers options for more effectively scrutinising the finance-strategy-performance link within the local government budget.

TRANSPORT BUDGET

Overall priorities

41. The Scottish Executive’s budget document *Building a Better Scotland*[^10], published after the last spending review in 2002, identified transport as one of “five priorities for action”. This year’s AER highlights four broad cross-cutting themes as priorities, namely (a) growing the economy (b) delivering excellent public services (c) building stronger safer communities, and (d) revitalising Scotland’s democratic frameworks.

42. The Committee took evidence from the Minister for Transport on whether or not transport remained a “key priority for action” and on what place transport has within the themes identified by the Executive. In evidence, the Minister argued that transport had a key role in the delivery of a number of the four cross-cutting priorities, and he highlighted, in particular, the priority of ‘growing the economy’—

“The Executive has a range of transport policies and priorities that it could support with sensible investment. One of the most obvious of those—indeed, it is at the top of the Executive’s priorities—is growing the economy, for which transport is vital. Transport is important not only in getting employees to their work every day, but in allowing the movement of goods around Scotland and away from Scotland to other parts of the United Kingdom and overseas.”[^11]

43. The Committee accepts the logic that transport has an important role to play in meeting the Executive’s cross-cutting priorities. However, this can be said of a number of the Executive’s departmental portfolios, including health, education and communities, and this stems from the fact that the Executive’s overall priorities are very widely drawn. In light of the Minister’s comments on the vital economic and social role of transport in Scotland, the Committee considers that transport should be more explicitly identified as a priority for the Executive within its overall programme.

Targets

44. The AER document lists nine key transport targets, which are the same as those published in the Draft Budget 2004-05. The AER sets out the Executive’s view that it is ‘on course’ to meet, or has met, all but one of the targets. ‘Slippage’ has been reported in the process of tendering contracts for Clyde and Hebrides ferry services.

[^11]: Col 776
45. The guidance issued by the Finance Committee asks the subject committees to consider the progress being made by the Executive against portfolio targets, and whether the targets listed in the AER are challenging enough and appropriate. The Committee raised various issues relating to the transport targets during the evidence session with the Minister.

46. The Committee noted, firstly, that the nine targets listed in the AER refer to indicators such as the numbers of passengers using the rail network and the number of local bus journeys, and there is no reference to the completion of specific projects by specific dates, such as rail links to Glasgow and Edinburgh airports, the redevelopment of Waverley Station, and other priorities referred to in the Transport Delivery Report of 2002. The Committee considers there should be a clearer statement of the Executive’s transport priorities, and makes recommendations on this later in this report.

47. A second concern is that some targets appear somewhat unambitious. The Committee notes, for example, that the Executive has set a target to increase rail passenger journeys on the Scottish rail network by 5 per cent between 2002-03 and 2005-06. However, figures for the two years prior to 2002-03 showed 5 per cent and 4 per cent drops in passenger numbers, respectively, which were blamed on the ScotRail drivers’ pay dispute, which led to a number of one-day strikes and a reduction in services. The target, in effect, is to restore passenger numbers to the levels before the industrial action.

48. The Committee does not underestimate the challenge of encouraging passengers to return to the railways following the disruption of industrial action, but considers that the Executive should be more ambitious in setting targets for rail passenger growth.

49. A related issue is that the AER contains a number of transport targets which have either been met, or appear well on course to being met. For example, the target to increase passenger numbers at Highlands and Islands Airports by 5 per cent by 2006 has already been met. In addition, Traveline Scotland currently receives 1.9 million enquiries a year – well ahead of its target of 1 million enquiries by 2006. The Committee considers that these targets should be updated as a matter of urgency.

50. The Committee has a further concern. The baseline dates used for the AER transport targets appear to be inconsistent. The target for increasing rail passenger numbers uses the baseline date of 2002-03, for example, while the target for the growth in local bus journeys uses the baseline date of 2000-01. This makes comparisons between the targets difficult.

51. In evidence, the Minister refuted suggestions that different baseline dates for targets had been selected so that the monitoring period for each target began at the lowest possible point of performance, making the target easier to achieve. He stated that baseline dates had been set according to the most recently available
The Committee notes these explanations, but still is clear that this inconsistency must be addressed. This was an issue that the Committee raised in its report on the Draft Budget 2004-05, which contained the recommendation that—

“All targets should be clear and unambiguous, and, in particular, that base years for assessing trends should be explicitly stated and, ideally, consistent between similar targets.”

52. The Minister acknowledged the problems with the current targets—

“I could try to give you some words of justification but that is one of the areas in which we need to introduce consistency of approach and to update the targets, so that there is a clear, understandable basis for our future targets and projections. The approach was related to the statistics that were available when the objectives were set: we collected data for different years, so we ended up with different start dates, but I do not think that that approach is sustainable or that we should continue with it. As the committee has suggested before, we should seek a common basis for targets in the future.”

53. The Committee reiterates its previously held views that targets should be more consistent and easily comparable; that they should be sufficiently ambitious; and that they should be reviewed and updated during the monitoring period as required.

Transport priorities

54. The Committee notes that in recent years there have been a number of high profile transport projects announced by Ministers. In evidence, the Minister referred to various projects, including the Edinburgh and Glasgow airport rail links, the M74 extension, the redevelopment of Waverley station, the Airdrie to Bathgate line, the Larkhall to Milngavie line, the Stirling-Alloa-Kincardine line, the Borders rail link, and the Glasgow and Aberdeen crossrail projects. However, none of these projects are identified as targets in the AER document.

55. The Committee questioned the Minister on whether sufficient expenditure had been committed to allow the completion of all these projects, and, if not, whether the Executive had prioritised the projects in any way. In response, the Minister stated—

“I believe firmly that the programme to which we committed in the partnership agreement is deliverable and affordable. Clearly, we are dealing with a significant budget and a significant group of projects, which will require to be actively managed not only over one spending review period, but over a number of spending review periods.”

56. Questioned further on whether the partnership agreements proposals would be entirely fundable from existing resources, the Minister stated—

“That is correct. When we negotiated the partnership agreement, it was important to establish that its projects were affordable and could be delivered. I am confident that we will deliver them. I am
also determined not to set the partnership document as the high-water mark of our ambitions, but to start considering other projects and encouraging them to go forward... As we establish the new transport agency and develop expertise—which has been sadly lacking for too long in Scotland—in the new schemes, we will get better at identifying costs and likely timescales.\textsuperscript{16}

57. The Minister was pressed further on the timescales for completion of the projects in the partnership agreement, and, in response, he stated his belief that, over a period of 10 years, all the projects could be delivered. The Minister indicated that he had a list of the projects and their anticipated completion dates. The Minister highlighted, for example—

- Larkhall to Milngavie rail line – under way
- Stirling-Alloa-Kincardine rail line – 2007
- Airdrie to Bathgate rail line – under way by 2007
- Phase 1 of Waverley Station redevelopment – completed by end of 2007
- First Edinburgh tram line – 2007
- Edinburgh and Glasgow airport rail links – under way by 2007
- Borders railway – should be completed by 2008\textsuperscript{17}

58. The Committee pressed the Minister on how definitive these dates were, using, as an example, the case of the Borders rail link. The Minister indicated that 2008 was the intended date of completion, but that the delivery of some transport projects depended on factors outwith the direct control of Ministers. Some transport projects, for example, were subject to an approval process, such as the planning procedures for compulsory purchases of land and the parliamentary process for the approval of new rail lines. The Minister also stated that, in the case of the Borders rail link, the Executive had not yet taken a final view on the funding the project—

“One of the key questions that members of the Waverley Railway (Scotland) Bill Committee will ask the Executive and me is whether we are committed to the funding of the project. I hope very much to be able to assure the committee that that is the case. We will be working on that during the next few weeks, but we cannot do that until we have made a fair assessment of the business case. I hope to be able to make an announcement soon.”\textsuperscript{18}

59. The Committee has two recommendations in relation to the AER document and the Executive’s transport priorities. First, the Committee recommends that the Executive should publish a clear statement, either in the AER or in a separate document, of the transport projects to which it is committed and the timescale for delivery of the projects. The Committee is encouraged that the Minister appeared to endorse this suggestion. In response to questions from members, the Minister stated that he had—

\textsuperscript{16}Col 778  
\textsuperscript{17}This list summarises the Minister’s comments in Cols 780-781  
\textsuperscript{18}Col 782
“Considerable sympathy with your suggestion that we should publish somewhere the scheduled delivery dates for our range of road and public transport projects. Indeed, the committee has put that point forcefully to me before.”

60. The Committee recommends that delivery dates are published for the Executive’s transport projects in advance of next year’s budget process. These should be set out in a publicly available document, to allow maximum transparency regarding the Executive’s transport commitments.

61. The second recommendation is that these delivery dates should be accompanied by a statement outlining what progress is required to achieve delivery of the projects. For example, the comment by the Minister that the Borders rail link “should be completed by 2008” did not initially mention that this date is dependent on the link achieving the necessary planning and parliamentary approvals, and may be dependent on securing funding from the Executive, which has not yet been formally committed. The Committee considers that the addition of this information would lead to greater transparency and realism regarding the challenges associated with the completion of these projects.

**Specialist skills and proposed transport agency**

**Skills shortages**

62. The Committee questioned the Minister on whether personnel could be found in Scotland with the necessary specialist construction and engineering skills to complete the various transport projects proposed by the Executive.

63. The Minister for Transport acknowledged that there may be difficulties recruiting staff with the necessary skills and training. For example, the proposed construction of a tunnel under the runway at Edinburgh airport is likely to be technically challenging. The Minister also noted that, in the next few years, construction expertise will also be required in Scotland for non-transport projects, such as the building of schools and water and sewerage infrastructure projects, and this might exacerbate any skills shortages, and have a consequential effect on project costs and completion dates.

64. The Committee recommends that the Executive adopts a cross-cutting approach to possible skills shortages which involves all Executive departments. In evidence the Minister stated—

“I give a commitment to the committee this afternoon to speak to other departments, to the Minister for Education, to the Minister for Health and Community Care and to Ross Finnie—in relation to his responsibilities for Scottish Water, for example—to ensure that we are all aware of the scale of spend on infrastructure projects that is coming up in Scotland during the coming years.”

65. The Committee welcomes this commitment and request an update on the outcome of these discussions.

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19 Col 784  
20 Col 781  
21 Col 786
Proposed transport agency

66. In evidence, the Minister suggested that the Executive’s proposed new transport agency could work to attract skilled workers. The Executive has completed a consultation on the proposals for a transport agency, and it is understood that the Minister will shortly announce more detailed proposals which may be subject to a further consultation and parliamentary approval. In the AER, a new budget line is allocated to a ‘Transport Agency Development Fund’, with £1.2 million being allocated in 2004-05 to reflect what the AER terms “the cost assumptions for the establishment of the new strategic transport agency”. The Committee questioned the Minister on how this money will be spent. The Minister commented that this was in order to attract new skills and new talent to the agency.

67. The Committee acknowledges the importance of attracting skilled professionals, and recommends that the new agency is as streamlined as possible, so a substantial proportion of the budget allocation is spent recruiting professionals with practical transport expertise. In evidence, it emerged that the £1.2 million would be divided between the public transport infrastructure team, the roads functions, and the central functions of the agency. The Minister undertook to provide further details of this allocation of funds, and the Committee requests this information as soon as possible.

Non-trunk road maintenance

68. The Committee has a long-standing interest in the funding of non-trunk road maintenance.

69. In evidence, the Society of Chief Officers of Transportation in Scotland (SCOTS) suggested that the backlog of expenditure on non-trunk road maintenance in Scotland, including repairs to road surfaces and associated infrastructure, was about £1.5 billion. However, SCOTS conceded that the organisation had not yet agreed on a definition of a ‘backlog’ of repairs, and that a more robust methodology was required to identify and agree on a more precise figure than ‘about’ £1.5 billion.

70. In evidence, the Minister for Transport commented on the issue of non-trunk road maintenance—

“The primary decision on [spending] will remain with local authorities.”22

“Ultimately, the local authorities will be in the driving seat, but if the Executive can help through the spending review process, I am willing to play my part in supporting the case for additional expenditure. The minister with the most direct responsibility is Andy Kerr. As the Minister for Finance and Public Services, he is responsible not only for finance but also for local government. Over the coming weeks, I will certainly speak to him about the issue in relation to the spending review process.”23

71. The Minister for Transport told the Committee that last year the overall GAE allocation for roads and transport rose from £147.375 million to £152.954 million (3.78 per cent) and there will be a further rise to £158.713 (3.76 per cent) next

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22 Col 794
23 Col 795
year. However, the Deputy Minister for Finance was reluctant to comment on the case for increasing GAE funding further, arguing that—

“Resources will be very tight in the spending review and that any increases in spending in one area will mean reductions in another. We will consider that further in the context of the spending review… but I cannot pre-empt those decisions now with any promises of additional funds.”

72. The Committee requested an analysis from the Parliament’s Information Centre of the difference between local authorities’ GAE allocation for non-winter local road maintenance and their actual spending on this area. The figures revealed significant differences between local authorities’ spending, and these existed even between local authorities which appear geographically similar. For example, in 2001-02 (the most recent date for which figures are available) Fife Council spent £1.14 million above its GAE allocation, while Stirling Council spent £2.07 million below its GAE allocation.

73. SCOTS’ evidence, however, raised more fundamental questions about how the methodology of funding non-trunk road maintenance is approached. SCOTS argued that there should be a shift away from a funding model which used GAE figures (which make assumptions about similarities between conditions in local authorities which may not always be accurate), and towards an asset-management model which focused on outcomes.

74. Arthur Nicolls of SCOTS summed up the position in evidence—

“Ring fencing would not help. On a national as well as a local basis, one has to decide what one wants from the transportation network. The roads network underpins most of the transportation initiative—without it, things do not run. It would be far better to focus on outcomes and on having a level of funding that is associated with the need of the asset. To apply artificial ring fencing would not be so effective, because one would still need to back up the level of ring fencing with an argument along the lines of, ‘For this length of road and national asset, we need to think about managing it in a certain way.’”

75. While the Committee notes that ring fencing of funds runs counter to the principle that local authorities should take such decisions, it also considers there ought to be a strategic discussion at a national and a local level regarding what standards of maintenance, and what targeted funding, are required for the road network. This discussion should be focused on outcomes and need, rather than simply GAE spending. As SCOTS stated in evidence—

“People get hung up about the GAE numbers, even though those numbers tell us nothing about the roads network.”

76. The Committee notes that discussions are ongoing between COSLA and the Ministers to ensure that outcome agreements are reached by 2006-07 and 2007-8, which could include agreements in relation to road maintenance standards. In evidence, COSLA explained how outcome agreements could permit variations and flexibility in local authorities’ spending while ensuring agreed standards are met—

24 Col 818
25 Col 724
26 Col 726
“It is almost a question of managing by results. If a council is delivering the outcomes, the inputs do not become irrelevant—they are clearly relevant—but the focus is not on inputs. The focus shifts.”

77. The Committee hopes that this approach will provide an opportunity to move away from an unproductive debate regarding ring-fenced funding and GAE allocation, and towards a more coherent approach to non-trunk road maintenance.

Impact of change

78. The Committee notes that in the next few years there will be a number of significant changes affecting transport institutions in Scotland and the UK, which may be relevant to the Committee’s scrutiny of the AER. The UK government is currently undertaking a major review of the structure of British railways; the Executive is proposing to establish a new transport agency; an announcement has been made about the redevelopment of Waverley Station; and the new Scottish rail passenger franchise is shortly to be announced.

79. In evidence, the Minister could not provide a great deal of information about the impact of these developments on the Executive’s expenditure plans. In relation to the UK review, he stated—

“If the review suggests that further powers should be transferred to the Scottish Executive, we would be positive about that, provided that there is an appropriate allocation of resources to enable us to deliver on those new responsibilities.”

80. In relation to the redevelopment of Waverley Station, he indicated that the Executive had provided £3.7 million of funding for detailed design work, but that no announcements had been made regarding funding for the full cost of the initial phase of the scheme, estimated to be £150 million. The Minister also indicated that there were three options for longer term development of the station, none of which would cost less than £500 million.

81. The Minister updated the Committee on the timetable for the reletting of the Scottish rail passenger franchise, and confirmed that it was too early to provide any information on the possible financial impact on the Executive—

“We are on target as regards progress on selecting a preferred bidder. If a decision cannot be made by late April, I hope that it will be made by very early May. We should be in a position to announce the preferred bidder then. A period of discussion with the preferred bidder will follow, to ensure that we have agreed the right contractual terms and have secured the right financial terms. I hope to be able to make known the final position to the committee and the Parliament as soon as possible thereafter.”

82. The Committee notes that all these developments may have significant budgetary impacts in future years, which cannot, at present, be estimated. The Committee is, however, committed to monitoring this expenditure in future years, and recommends that the Minister for Transport provides the Committee with full information as soon as it is available.

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27 Col 817
28 Col 791
29 Col 793
Finance Committee
16th Meeting 2004 – Tuesday 25 May 2004

Budget Process 2005-06

Written Submissions

1. The Committee agreed at its meeting on 2 March 2004 to invite written evidence from business and trade organisations as part of its consideration of the Budget Process 2005-06.

2. Submissions have been received from:
   - CBI Scotland
   - FSB Scotland

3. The Committee is invited to consider the submissions.

Susan Duffy
Clerk to the Finance Committee
SUBMISSION FROM CBI SCOTLAND

How efficiently CBI Scotland feels resources are being used – the Annual Evaluation Report 2005-06 sets out the priorities of the Scottish Executive and aligns departmental expenditure and target monitoring with each of the Executive’s ministerial responsibilities and departments. The information provided in the report is not presented in a way which gives the reader any sense of how efficiently the resources are being used. To evaluate efficiency, one would need to examine carefully the business cases supporting each element of expenditure and compare the rates of return and other key metrics against similar elements of public expenditure outside of Scotland considered to be world class.

How appropriate CBI Scotland believes the targets to be – in most cases, the targets appear to be reasonable in that they are distillations of the agreed policies set out in the Partnership Agreement. In the main, CBI Scotland supports the Scottish Executive’s priorities, particularly those targeted at improving the supply side of the Scottish economy, but it is impossible for the reader of the Report to connect the sums set out in the three year spending plans to the efficient use of resources in achieving, or being on course to achieve, the targets.

Whether targets are the correct way in which to measure the effectiveness of public sector spending – targets are hugely important in that one cannot measure progress towards achieving agreed public policy objectives unless targets/milestones are set in advance. CBI Scotland very much supports the setting of targets and their regular and careful monitoring and parliamentary scrutiny. However, the targets as set, are not necessarily the correct way in which to measure the effectiveness of public sector spending. For example, “to increase rail passenger journeys on the Scottish rail network by a further 5% by 2006” is a laudable target that CBI Scotland supports. This target, however, gives no clue as to the amount of public funds used to achieve the objective. One would need to examine very carefully the original business case in terms of the public funds to be expended and the rate of return on that expenditure and other key metrics. It is, therefore, vital to have sub targets and key metrics for each main target to assess progress and efficiency.

Iain M McMillan
Director, CBI Scotland

SUBMISSION FROM FSB SCOTLAND

The Federation of Small Businesses is Scotland’s largest direct-member business organisation, representing 18,000 members. The FSB campaigns for an economic and social environment which allows small businesses to prosper. We therefore take a strong interest in the budgetary process and the linkages between public investment and economic growth, and welcome this opportunity to contribute to the Finance Committee’s Stage One scrutiny. Our submission includes analysis of the key document itself; the Budget process; specific spending issues by spending area; and examples of good practice from other sources.

Draft Budget/Annual Evaluation Report (AER)
**Data**
A crucial fault with the existing AER is the lack of historical data. This is especially important when it is the Executive’s intention to refocus the process towards a discussion of past performance.

In earlier years it was traditional to give 10 year runs of the data, at least at the higher levels (health, transport etc), in both nominal and constant prices. Currently the figures cover only 3 years, with no historical back run at all.

The historical series should go back to at least the start of the Parliament 1999/2000, and preferably longer, in order to see how spending patterns have changed post devolution.

While we accept that there may be difficulties with data consistency, due to transfers of responsibilities and in particular due to the move to ‘resource budgeting’, it is unacceptable that these longer term data series are not presented. In each case approximate adjustments should be able to be made, to allow consistency either on the old basis, or, preferably, on the new basis.

Without these historical runs it is impossible to tell which Budgets are doing relatively well and which relatively badly in comparison to the Scottish average spending changes. This lack of transparency is very damaging in terms of both the public’s understanding of spending priorities and of academics and other interested parties ability to analyse the data and spending trends.

**Targets**
While targets are now clearly laid out there are a number of problems with them:

- There are around 140 targets but there is practically no prioritisation within this total number.
- Crucially, targets are only one part of a three part strategy that is needed. The other two are the evaluation of the targets and the resetting, or changing, of targets based on this evaluation. As the report includes very little historical data, it is largely lacking in the latter two stages. This may have been permissible in the early days of the new Executive, but now.
- The evaluation exercise is also crucial in that it allows for specific policies to be judged in terms of their contribution to meeting targets. There may be a variety of policy levers influencing a target and it is important to understand which are working and which are not. Future spending might then be shifted from the latter to the former. However, up to now there has been very little evaluation of the relative success of different levers. Therefore we are largely ignorant of the reasons for success/failure re targets. In general there is a lack of linkage between the targets/challenges and the key delivery initiatives. This is similar to Smart, Successful Scotland, where there is little attempt to understand the impact of different policy decisions (e.g. setting up Business Gateway) on progress towards targets (e.g. business starts).

**Other Indicators**
As well as the targets currently outlined in the AER, there is also a need for greater use of other types of indicators which give a clearer expression of how Scotland is
performing in terms of ultimate objectives. These could be presented by Department or simply as a general list of key indicators. Some or most will already be calculated for other purposes. For example, these indicators might include:

- GDP per capita and annual change in GDP per capita
- Index of wellbeing per capita and annual change in this index
- Pre-school, primary school and secondary school indicators of basic skills and communication skills (exams or otherwise) and degree of variance across skill levels
- Health index and degree of variance by health authority
- Environmental index
- Justice/safety index
- Transport/access index

In each case some form of international comparator would also be needed in order to gauge Scotland’s relative performance in terms of these indicators.

The Budget Process

There are still a number of major problems relating to the budget process.

Spending priorities are not sufficiently clear. If the economy is the top priority of the Executive how does this translate into budget decisions and spending priorities? If education is a high priority, how do we balance this up with the fact that the number of children in schools is declining and is forecast to continue to decline? While the Executive and the Parliament and Committees debate the Budget in great detail over the parliamentary year, there is little explanation of how manifesto commitments or stated priorities are turned into financial commitments.

In addition to the above there is almost no understanding of what has been, or will be, delivered for the money being spent. The lack of policy evaluation and cost benefit analysis (CBA) for future spend, especially capital spend, means that spending decisions are based on insufficient evidence. A good case in point is spending on Higher Education which continues to rise when research on skills shows that shortages and gaps are in more intermediate skill levels.

While we accept that there are considerable difficulties in comparing returns to investment in, for example health and transport policies, and even within health itself, some attempt to gauge returns, and to inform both parliamentarians and the public of these returns and the trade-offs they entail, is essential. As Scotland already has a high level of public spending in terms of government spend as a share of GDP, we should expect that any sectoral funding increases should come about as a result of shifts in spend rather than an overall increase in this share. In that case it is essential that the nature of such trade offs are understood and accepted. The alternative is that vested interests continue to exert undue pressure on the Executive in order to block any necessary spending cuts or realignments.

It is also essential that the Finance Department of the Executive becomes stronger and more challenging central force. Getting efficiency and best value from the current resources available should be its key priority. However, there it is unclear whether it
carries out this task with sufficient vigour at present. There is little evidence of comparative evaluation, or of the use of CBA to prioritise spend. Best value practice in central government still seems to be behind that forced, rightly, on local authorities and policy is still not sufficiently evidence-based.

Some possible solutions to these problems include:

- A strengthened role for the Finance Minister in co-ordinating policy across the Executive and in prioritising spending in accordance with government-wide objectives, including economic development in order to apply the values and objectives of the Executive more consistently in the budgeting process and in setting spending priorities. Also, to apply the principle that investment choices should be made based on explicit criteria against which the value of all projects can be measured.
- Making more use of outside expertise and increasing mobility in and out of the civil service, including secondment and placement schemes, in order to increase the availability of, and responsibility of, expert knowledge.
- Improve efficiency and value for money by: increased use of calculating rates of return for different investments and attaching different levels of risk to these returns; increasing information gathering, analysis and evaluation of investment choices; importing best practice from other countries.
- All the above changes might be best achieved by moving from a Finance Department to an enhanced Office for Management and Budgeting, suitably empowered by the First Minister and with increased specialist staffing.
- Strengthen the role of associated bodies, in particular, the Finance Committee and the Audit Scotland. The latter still does not appear to play as important a role in determining economy, efficiency and effectiveness of public money as the National Audit Office (NAO) does at the UK level. The NAO is increasingly being used to scrutinise public spending programmes, focusing on the extent to which increases in spending are delivering sustainable improvements in public services. To that end it audited over £600bn of government expenditure and revenue in 2002-03, and is estimated to have saved £1.5bn over the last 3 years. In comparison the role of Audit Scotland appears to be more an auditing of practice and process and less concerned with value for money and standard of public service, even in its performance audit reports.

A strong and efficient Finance Department is also needed in the light of calls for greater fiscal federalism from some quarters. This is essential regardless of whether such calls are to be rejected, as it would show that financial responsibility can be gained without greater powers, or accepted, as it would show that greater powers should be able to be utilised efficiently.

The Atkinson Review of the future development of government output and productivity is an extremely important exercise which has received little attention so far in Scotland. It is unclear what role the Executive is taking in this review. It is crucial that data on Scotland as well as on the UK is made available, in order for the implications of the Atkinson Reviews findings to be properly understood in a Scottish context, as so many of the key areas like health and education operate differently in Scotland. Once the review is published a specific Scottish based strategy should be put in place to respond to its findings. Also, areas where inputs are currently used
instead of outputs or outcomes to measure Gross Value Added (GVA) or productivity need to be revised, e.g. health services measurement in Scottish GVA. As far as possible there should be no inconsistencies between measurement systems used for Scotland and for the UK.

It is also important that the Executive makes a considered response to the findings of the Gershon Report on reorganising public services. While some of the increase in public servants post-devolution may have been warranted, there would still appear to be considerable scope to reduce and reorganise civil service jobs and to find efficiency savings which could be invested elsewhere.

Some of our concerns on target setting have been highlighted above. However we also think it is important to consider alternatives to such crude targets in terms of creating greater efficiency. In particular, greater emphasis should be put on the role of incentives in creating efficiency gains. This need not be simply in terms of greater competition in areas that are conducive to it but also greater local autonomy to deliver improvements where other bodies have a proven track record.

In addition, where targets are being set and where spending priorities are changing, the evidence base (which is separate from the reason) for such a policy should be clearly documented, either in the AER or elsewhere.

Spending priorities

We have specific concerns in some spending areas:

**Enterprise/Economy**
- Despite repeated protestations that the economy is the top priority of the Executive, this is not reflected in spending patterns. This need not simply mean increasing the funding of the Enterprise Network, but it should be clear, whether in terms of funding for transport infrastructure, extra child care places, improved HE/FE funding for research etc, how the commitment to grow the economy is being followed up in terms of spending priorities.

**Business friendly policies**
- While countries can be economically successful with both high (e.g. Sweden) or low (e.g. U.S.A.) government expenditure ratios, it is increasingly recognised that successful high government spending regimes have generally business friendly policies in relation to things like the mix of taxes, use of competition and work incentives, high capital investment in infrastructure, childcare and R+D etc. In Scotland it is not evident that this trade off occurs, so the Executive needs to concentrate on matching high government spending with business friendly policies in the areas outlined above, in addition to water charges; business rates; planning procedures; and degree of regulation.

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• The economic impact of any changes to planning procedures need to be investigated before any wider rights of appeal are introduced. Trade offs are always possible but it needs to be recognised that speeding up the system and balancing the needs and concerns of businesses and private individuals will require much greater resources and possibly greater flexibility.

**Higher and Further Education**
• Higher education funding is of great concern. Scotland appears to be risking the reputation of its HE institutions by not following the changes seen in England, or of introducing a satisfactory alternative. There is already considerable speculation that ‘poaching’ of Scottish academics is beginning to take place and this is only likely to increase over time.
• Future Skills Scotland research suggests that the greatest skills deficiencies are in soft skills and technical trades. Greater public investment should be targeted at these areas in order to deliver the skills required by the economy. We also need to recognise that university is not for everyone and to increase the emphasis on FE courses and on other more practically based learning courses.

**Human Capital**
• As the FSB made clear in its manifesto last year, and as the Nobel prize winning economist Professor Heckman reiterated in a recent seminar in Scotland, investment in the early years of education brings the greatest rewards in terms of improvements in human capital. In particular pre-school care needs to be extended, the quality raised and interventions introduced, so that no child falls behind in its most vulnerable years.

**Data, Research and Evaluation**
• Greater investment in research and evaluation is essential if we are to put in place more evidence-based policies. Such concerns obviously range across all Departments, however it is the role of centrally based statisticians and economists to collect and analyse the data, as well as to commission research from academics and others. There is a great need to increase the number of both statisticians and economists and to increase the breadth and depth of data collection.
• While increased collection of, and analysis of, Scottish data is key, we also recognise that it will not help greatly in the short term evaluation of which policies to pursue. In the short term, greater attention should be paid to existing evidence from around the world in areas of active policy consideration, whilst taking into account obvious local differences.

**Examples of good practice from other sources**

** Longer term planning**
The there are a number of countries which show greater insight into long term planning than is shown in Scotland, or the UK. The advantages of putting a greater emphasis on longer term planning include

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2 For discussion, see Modern Budgeting in the Public Sector, edited by Ray Barrell and Florence Hubert, NIESR Occasional Paper no.53, 192pp. (1999)
• Increased understanding amongst the public of the trade-offs often involved between short-term and long-term spending
• Consequently a greater propensity to spend on capital projects instead of current spend
• A greater understanding of the problems around major changes like increasing congestion or demographic changes.
• With this understanding, often brought about through commissioning research well in advance of decisions being needed, comes greater cross party support for essential changes (Ireland might be seen as a good example of this)

We are not short of areas where such improved long term planning and scenario-setting is necessary. For example:

• What is the Executives long term population policy? Is it for a balanced demographic pattern, if so what does that pattern look like? Is it for a steadily increasing population, if so by how much and what plans are in place to cater for this e.g. in terms of planning for new house build?
• Implications of the projected increase in the number of households in Scotland, and the interregional movements
• Implications of the projected increase in car use,
• Implications of the projected decline in schoolchildren,
• Implications of the projected rise in elderly and in elderly in care,

In all such cases we need to look carefully at what planning is being undertaken to take these trends into account. To ensure the realignment of budgets according to priorities, these debates need to take place more publicly than they are now.

In terms of the AER, it may be worthwhile including a section that looks at longer term issues, including a more detailed consideration of a particular subject each year.

Statement of Strategic Direction
There are significant benefits to be gained from setting a firm strategic direction. This can be done relatively informally through speeches and debates as well as more formally through devices like the National Development Plans of Ireland. Either way they should clarify direction; objectives, priorities; targets; and resource allocation. The rationale for these, including any evidence base, should also be made clear. The absence of such a clear statement of strategic direction can lead to public and parliamentary confusion. For example, the AER states that “the economy is the Executive’s top priority” but there is no explanation of how this shapes general Executive policy or of how resources are allocated. The FSB outlined a proposal for a national development plan for Scotland in its 2003 Scottish Parliament election manifesto.

John Downie
Head of Parliamentary Affairs, FSB Scotland
Introduction

1. This paper falls into two parts. The first section summarises committee responses to the questions set out in the Finance Committee guidance. The second section highlights and addresses some wider budgetary issues raised by committees.

Section 1: Subject Committee Reports

(a) Is the committee satisfied that progress has been made over any outstanding issues made in its recommendations last year?

Four committees did not respond at all to this question, whilst one committee (Health) welcomed the written responses received from the Minister. Two committees (Education, and Environment and Rural Development) were clearly dissatisfied with the Executive’s responses over two years, and environment in particular felt its views on targets had been ignored as the same targets continued in use. However, the Executive has always made it clear that these targets would remain over the Spending Review (SR) 2002 period. They were added to by the new Partnership Agreement and will be reviewed this year prior to SR2004. The Local Government and Transport Committee repeated previous recommendations regarding accounting aspects of the budget, which have wider implications than its own remit, and these will be addressed in Section 2.

(b) In the context of the 2005-6 Budget, does the committee wish to recommend any realignment of resources within the DEL?

No committee made recommendations for realignment of resources within their portfolio. This is not surprising given the limited scope for change in the absence of additions to the baseline for 2005-6 from Westminster. Health however, said it found this difficult to address because of the lack of information on links between spending and health outcomes, or patterns of spending by health boards. Two committees (Environment and Education) raised
questions about the adequacy of using SR 2002 information for this purpose. However, committees have access to a range of reports which contain relevant information to inform their judgements and to evidence from relevant organisations, and it is unrealistic to expect all relevant information to be in the budget document, particularly the AER with its focus on reviewing strategy and performance, rather than detailed spending proposals.

(c) In the context of the forthcoming Spending Review, which programmes should be given priority in the allocation of resources?

Five committees made no recommendations regarding spending priorities for SR2004 (Education, Health, Communities, Local Government, and Equal Opportunities). Two committees (Enterprise and Culture, and Local Government) argued for aspects of their responsibilities to be spending priorities across the Scottish Budget (economic growth and transport respectively). The Finance Committee has received eight specific recommendations for priority funding in SR 2004, and these are listed in Appendix One.

(d) Is the committee content with the new budget strategy as set out in the AER?

Three committees (Justice 1 and 2/Local Government/Equal Opportunities) did not respond to this question. In the other reports, Enterprise simply stated its support for economic growth as a budget priority; whilst Communities noted a lack of clarity about spending on poverty-related programmes under the Closing the Opportunity Gap (COG) issue. A common theme in the other reports was the absence of a clear link between the priorities and the portfolio budgets. Education believed that there should be an unbroken chain which connects the budgetary information in the AER to the new strategic priorities, but notes that in practice the cross-cutting themes will be difficult to match to budget spend. Health supported the principle of cross-cutting, as it is widely recognised that determinants of health extend well beyond the NHS. However, it concluded that the cross-cutting themes appear to be fairly peripheral to the health budget. By contrast, Environment sought a clearer explanation from the Executive as to how the new strategy relates specifically to the Scottish Executive Environment and Rural Affairs Department portfolio and spending priorities. Overall, therefore, there is a view that the link between strategy and allocations is at best weak, and the Committee needs to enter into discussions with the Executive as to how this can be improved (I return to this in the next section).
How does the committee view the progress against targets reported in the AER? And does it feel there are any gaps in the targets?

This question attracted the most attention and criticism of the AER document. Only one committee (Justice) made specific proposals for improvement, regarding measures of drug seizures, slopping out and persistent offending. A number of committees noted that the Executive’s interpretation that targets are ‘on course’ often referred to data collection rather than delivering the target, and Enterprise recommended a reporting line of “on course to collect data” or “no data yet available to measure progress” which would provide a clearer picture of progress towards targets. Communities argued that they have four sets of targets in four different reports and recommended consistency across them. Health observed that monitoring was not sufficiently robust and not all targets adhered to “smart”\textsuperscript{1} principles. Several committees noted the need to update and improve the targets for SR 2004. Equal Opportunities requested a much clearer distinction be made between equality targets and COG targets. Local Government asked for more ambitious targets with consistent baselines. It is clear that there is widespread discontent with the target system and big issues were raised regarding the paucity of outcome targets and the lack of connection between targets and budget headings. The Executive will review the targets for SR2004 and committee comments will clearly assist that process – but there is now a pressing need for a more fundamental reappraisal of the model itself, which the Finance Committee should address in the next phase of the review of the budget process after SR 2004.

What written evidence is available to the committee in making recommendations and from which individuals and organisations does it take evidence?

An open and consultative approach has been central to the budget process since the Parliament was established. In the context of the Spending Review in the summer, the consultation over the AER is the key opportunity to influence budget decisions for the next two years. Committees varied in their approach, with Enterprise, Justice and Health corresponding with a large number of organisations and receiving up to 10 written submissions, and hearing similar numbers of witnesses. At the other end of the spectrum, Education received evidence from the Minister only. Several committees commented on the inadequate timescale for

\textsuperscript{1} Smart, Measurable, Achievable, Relevant and Time-limited.
consultation and scrutiny of the budget, and this suggests that Finance should also discuss the practicalities of managing this process with the Executive in the next stage of the review of the budget process.

Section 2: Wider Budgetary Issues

3. The division of responsibilities gives the Finance Committee responsibility for the co-ordination of the Parliament’s response to the budget proposals made by ministers, and the subject committees’ role is to comment on the spending priorities within their areas of responsibility. In doing so, committees often comment on the budget information provided with the spending proposals, which the Finance Committee will consider when examining the presentations of budgets on behalf of the Parliament. This year, a number of recommendations regarding budget information and documentation have been made in committee reports, which are matters for the Finance Committee and the Finance Ministers to address. I highlight these below, to try to avoid these matters being considered on an ad hoc basis by ministers with the relevant subject responsibilities within their portfolios. I make no comment when recommendations relate directly to subject committee issues which are properly a matter for deliberation between the relevant ministers and the subject committee.

(a) Accounting Data

Education and Local Government both made specific proposals for additional/different forms of accounting data. Education asked for data on fixed costs; a range of budget options; outturn data; and data on local authority discretionary spending. The second and fourth are problematic, in the sense that the role of committees is to scrutinise the Executive’s proposals – not appraise options or comment on spending which is outwith Executive control. Data on fixed costs and on expenditure outturn could be provided, but the AER is not necessarily the appropriate place for it – given the time lag in obtaining reliable data in actual expenditure which would be needed for both. Local Government asked for alternative measures of budgetary baselines and inflation, and for the provision of efficiency targets in budgets. These might be of use within the portfolio, but it would not be equitable for them to be in spending proposals which require to be consistent across departments. A previous request to apply a health inflation index was not supported by the Finance Committee for similar reasons. Local Government also asked for the specific projects in the transport budget to be listed and costed. Again, there may be a
case for this outwith the AER, but it is difficult to see why such data ought to be in this document.

(b) Crosscutting Expenditure
A number of committees expressed their wish to receive information on expenditure outwith their portfolios which contributed to their subject e.g. health, enterprise, communities (poverty) environment (rural development) and justice (crime). There is merit in these suggestions, but a key purpose of the budget is to provide a basis for financial control and accountability, and this is already complicated by the use of portfolios in spending plans, but departments in the budget legislation. It should be possible to have this provided directly by ministers to the subject committees prior to their consideration of the Draft Budget, but these should not necessarily be in the budget documents in this form.

(c) Block Allocations
Both Health and Local Government reported their previous discontent with the lack of transparency in these allocations. A previous commitment to provide both committees with a note of the underlying policy and financial assumptions for the growth element of their budgets was not met, and both committees felt links between the blocks and outcome targets were tenuous. This was also commented on by Education.

(d) Executive Responses
A number of committees were disappointed at the lateness of Executive responses to last year’s Stage 2 reports, and Health has asked for a response within a month – although the current agreement is for two months.

Conclusions
4. These issues all suggest, given the range of developments in the budget, that the time is opportune to review the financial agreement with Finance Ministers to address what are largely financial and performance information issues, and in the context of the comments made on the new look AER which is part of the agenda to strengthen the strategic dimension in the budget. If the Committee is content, I shall make proposals as to how we could take this forward in the Draft Stage 1 Report. In the meantime, it would be helpful to highlight these concerns to subject committees by passing this paper to them for information.

Professor Arthur Midwinter
Budget Adviser to the Finance Committee
Appendix

Spending Priorities by Subject Committees
For Consideration in Spending Review 2004

1. Justice Committee
   - Offender Services in Community Justice Services programme;
   - Police GAE to fund an accelerated recruitment programme;
   - Scottish Court Service Capital budget to make all courts ‘fit for purpose’

2. Enterprise and Culture Committee
   - Capital spending on infrastructure investment in sports facilities;
   - Higher Education;

3. Environment and Rural Development Committee
   - Agri-environmental scheme similar to that available in England.
   - Funding for training for farmers to meet the new cross-compliance requirements under Common Agricultural Policy (CAP);
   - Funding for targeted rural development schemes with clear public good objectives which are compatible with the reformed CAP.
Dear Des

HOLYROOD REPORT, MAY 2004

This is my ninth monthly report on Holyrood, providing the Finance Committee with the latest information on the Project cost and programme. This report deals with progress since the previous report on April 19th.

We continue to make significant strides towards completion of the building. Acceleration measures are now being targeted on specific areas and the progress of the internal fit-out is benefiting from this approach. All acceleration is being funded from within the existing estimates.

Key points this month:

1. There is no change to the overall cost reported in April. Speculation to the contrary in Building Magazine is wrong.

2. Since the April report, £13.84m has been moved from the risk and programme reserve into construction commitment. These were all in fulfilment of anticipated commitments. £505k has also been moved from the construction reserve into the programme contingency. Details of this are given in the attached cost breakdown at annex A.

3. There is no change in the overall programme for occupation of the building this summer.
Progress on site in May includes:

- The stone floor in the Garden Lobby is now well advanced;
- The servery and kitchen equipment for the public cafeteria is in place;
- All three committee tables have been installed in the Tower 1 Committee Rooms, along with broadcast lighting.
- The crash deck has been removed from the north lightwell;
- The replacement railings around Queensberry House have been installed;
- The scaffold dropped from the upper pergola releasing the area at the main entrance for hard landscaping to progress;
- Trees have been put in place in the Reid’s Close garden and at the large pond;
- Granite setts are being installed in Reid’s Close in advance of the route being re-opened to the public;
- The scaffold at the west elevation of the Chamber has been dropped, revealing the veneered glass.

Migration

The Parliament’s Implementation unit (IU), part of the technology and Facilities Management Directorate, is responsible for ensuring that the Parliament’s move to Holyrood is a success. It co-ordinates a significant programme of work which has to be aligned with the Bovis Construction programme in order that the two work together seamlessly.

IU meet regularly with Bovis and HPT to ensure that the two programmes are integrated. Reports on key areas are made through the HPG to IU every two weeks and IU submit regular reports to the SPCB on Progress along with HPT. The work of IU includes Risk management of the Parliament’s move and they have also been involved with the latest Bovis and Design team risk reviews on completion.

Migration planning is well advanced and migration co-ordinators from each part of the Parliament staff group have been identified and briefed. This programme is now extending out to members and their staff, and you will know that we recently wrote to all Members informing them of the timetable for the move and informing them of the action they need to take.
The Parliament’s maintenance contractor is now on site and taking part in the
testing and commissioning process. The Parliaments cleaning contractor is
due to start next week and will be assisting in the final clean of areas in a
progressive fashion in preparation of the next phase of furniture deliveries and
the first staff moves at the beginning of August.

You will be aware of press reports today, concerning fire damage to an outer
wall at the site. Bovis has responsibility for site security and while I very much
regret this act of vandalism, the situation is now being assessed by experts
and any remedial action necessary will be taken.

Appreciation

I would refer Members of your Committee to the recent reviews of Holyrood in
Icon (May 2004), The Times (22 May 2004) and The Sunday Times (23 June
2004).

I will report again to the Committee at the end of June.

Yours sincerely

GEORGE REID

Encl: financial summary annex.
### Materialisation of risk sums:

**Risk drawn down from 'Construction Reserve':**
- Tower Cranage: £154,000
- Assembly Windows: £2,500,000
- Fit out Towers 1&2 and Chamber: £6,071,877
- Fit out Towers 3&4 and Canongate: £2,161,469
- Lifts: £87,233
- Assembly Windows: £2,000,000
- Stone Cladding: £500,000
- QH Doors &Windows: £320,000
- Mechanical & Plumbing: £50,000

**Net Total**: £13,844,579

**VAT**: £2,422,801

**Total**: £16,267,380

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### LANDSCAPING

**Sums from reserve moved back to contingency**
- QBH Doors: £395,000
- South Core Screen: £35,000

**Net Total**: £430,000

**VAT**: £75,250

**Total**: £505,250

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### MAIN PROJECT

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<th>Description</th>
<th>Low End</th>
<th>High End</th>
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<tr>
<td>Fit Out</td>
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<td>Current construction commitment</td>
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<td>plus 13.84m</td>
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<td>Fees (capped lump sum)</td>
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<td>42.1</td>
<td>plus 2.42m less 13.84m</td>
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<td>4.1</td>
<td>less 2.42m less 0.08</td>
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<td>Total</td>
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<td>403.3</td>
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### SUBTOTAL: £417.4 - £420.9
| Programme contingency (incl. VAT) | 7.3 | 9.6 | plus 0.51m | Total | 827,846 |
Finance Committee

16th Meeting 2004 - Tuesday 25 May 2004

Scottish Parliamentary Building Project – Monthly Report

1. The latest monthly report from the Presiding Officer will be issued to members as soon as it is available. This report will provide an update on the progress of the Holyrood Building Project.

2. Also attached is a copy of a letter from Paul Grice, dated 29 April 2004, and a letter from Sarah Davidson, dated 6 May 2004.

Susan Duffy
Clerk to the Committee
At last week’s meeting, I undertook to come back to the Committee in response to Mr Ewing’s questions about the settlement of loss and expense claims.

As the Presiding Officer says in his letter to you of 24th February 2004, the submission and verification of claims for loss and expense is an ongoing part of the Construction Management process. Applications for extension of time are considered and authorised, (or otherwise), as the Project moves along and claims settled accordingly.

For that reason, the figure in the financial annexe relating to current construction commitment includes sums for loss and expense which have already been settled with Trade Package Contractors. The construction reserve and programme contingency lines are comprised of the remaining amounts which the cost consultant has estimated as being due to contractors for the settlement of all final accounts, including claims for loss and expense.

In his evidence to the Fraser Inquiry, Hugh Fisher estimated that a total figure of 98.9m – 103.9m could be attributed to claims related to prolongation, re-sequencing, disruption and loss. That figure is contained within the overall project cost of £424.7 – 430.5m as reported to the Committee.

I understand that the Project Director is writing to you separately on the issue of the toilet fit-out package which was outstanding from our previous discussions with the Committee.

P E GRICE
Clerk/Chief Executive
Dear Mr McNulty

I undertook to supply the Committee, (and Mr Brocklebank in particular), with further information about the letting of the site-wide toilet fit-out package. I apologise for the delay in doing so.

The contract documentation is lengthy, but an appropriate extract reads:

"The Scope of Works covered by this Trade Contract includes the design, co-ordination, engineering, co-ordinated fabrication drawings, manufacture, supply and delivery to site, equipment and labour, unloading and storing on site as necessary, taking from store, hoisting into position, assembly, fixing, installation/protection, cleaning down and everything necessary to undertake complete installation, setting to work and testing of the Toilet and Fitness Area fit-out."

There is a fairly long "summary" of the Scope of Works included, which includes as major items:

- Internal partition walls to toilet/disabled toilet areas;
- Render or plasterboard & paint finish to concrete walls;
- Screed to floors;
- Suspended ceiling installation;
- Supply and installation of plywood patresses for fixing of light fittings, alarms, etc;
- Supply and installation of slate vanity tops and stainless steel splashback and downstand;
- Ceramic tiling to walls;
- Ceramic tiling to floors and skirtings;
- Slate tiling to floors;
- Supply and installation of panelling systems;
- Supply and installation of all sanitary ware and fittings;
- Supply and fix of shower cubicles;
- Supply and installation of toilet cubicles and doors;
• Installation of light fittings.

Bovis notified the Project Team in November 2000 of the proposed Trade Contractors for Pre-qualification. There were 8 companies on that list, including Scottish companies Anderson Shopfitting of Pentland Industrial Estate, Loanhead; Grant Westfield of Edinburgh; Thomas Johnstone of Renfrewshire; and Martin & Son of Edinburgh.

Following pre-qualification, a tender bid list of 6 companies was agreed as follows:

Anderson Shopfitting
Mivan
Mosaic Interior Contracts
Martin & Son
TBS Fabrications
Swift Horsman

Tenders were issued on 16/2/01 and returned by 23/4/01. Unfortunately, the two Scottish companies who made the final bid list (Anderson Shopfitting and Martin & Son) withdrew and did not submit bids. Following a long period of bid appraisals, Bovis submitted a tender recommendation to appoint Mivan on 20/12/01 and the contract was finally signed on 15/4/02.

The trade contract value was £1.5m. The Estimated Final Cost of the package now stands at £2.9m. More than half of the additional cost (£845k) is attributable to prolongation, disruption, delay and temporary works to the package which was originally intended to be complete before April 2003. An additional £173k worth of plumbing works, wall linings, Builders Work and raised access flooring was brought into the package after contract award. There is a contingency of £113k. The remaining difference of £269k (19% of the total increase) is attributable to a number of post-contract award changes to the specification and additions to the package. This is one of the contracts which the auditors have been examining in recent months and they will doubtless comment if any issues give them cause for concern.

I am copying this letter to Paul Grice and to Robert Brown MSP.

Sarah Davidson
Project Director