FINANCE COMMITTEE

AGENDA

19th Meeting, 2005 (Session 2)

Tuesday 13 September 2005

The Committee will meet at 9.45 am in Committee Room 2 to consider the following agenda items:

1. **Budget Process 2006 – 07**: The Committee will consider a paper from the budget adviser.

2. **Cross-cutting Inquiry into Deprivation**: The Committee will consider research by Professor Glen Bramley and additionally will take evidence from—

   Professor Glen Bramley, Professor of Urban Studies, Heriot-Watt University;
   Professor Alan McGregor, Professor of Economic Development, Training and Employment Research Unit, University of Glasgow;
   Norma Hurley, Director, Blake Stevenson Ltd;
   Professor Stephen Syrett, Reader in Local Economic Development, Middlesex University;
   Professor Matt Sutton, Professor of Health Economics, University of Aberdeen;
   Professor Ivan Turok, Urban Economic Development, University of Glasgow; and
   Peter Wood, Managing Director, Tribal HCH.

3. **Committee Away Day**: The Committee will consider and endorse the minute from its away day held in August.

4. **Item in Private**: The Committee will decide whether to consider its draft report on the Financial Memorandum of the St Andrew’s Day Bank Holiday (Scotland) Bill in private at its next meeting.

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

**Agenda Item 1**

Paper from the Budget Adviser

**Agenda Item 2**

Commissioned research on the Scottish Index of Multiple Deprivation (hard copy circulated to Members only; report available via Deprivation Inquiry homepage at: http://www.scottish.parliament.uk/business/committees/finance/inquiries/deprivation/fc-dep-index.htm

Written submissions from:
Norma Hurley, Director, Blake Stevenson Ltd;
Matt Sutton, Professor of Health Economics, University of Aberdeen;
Mark Shucksmith, Professor of Planning, University of Newcastle Upon Tyne.

PRIVATE PAPER

**Agenda Item 3**

Report on Committee Away Day – paper by the Clerk
Introduction

1. This paper sets some preliminary considerations for the next Spending Review. It reflects research and discussions carried out over several months, and sets out a clear picture of significant trends in the budget since devolution.

2. Much of the Committee’s work on the Budget is short-term deliberation of spending plans driven by the Parliamentary timetable and the imperative to approve the annual financial legislation. The reforms to the process agreed with the Executive, however, now permit a longer term look at budgetary developments in the interim year between Spending Reviews. Although the focus of budgetary decisions is change at the margins on an annual basis, significant changes to reflect priorities can be made over the lifetime of a parliament. This paper, therefore, seeks to assist the discussion of priorities, allocations and targets in the next Spending Review by providing an evidence base on outturn and results over the period 1998-99 to 2003-04. Whilst the Executive will report its performance against targets over the SR 2002, these are mainly short term with a functional focus. Only by a longer-term analysis can we be clear that progress is being made.

3. This paper is in three main parts. Firstly, it updates the research undertaken for the Committee in 2000 (Midwinter and Stevens, 2000), which maps out the constraints on budgetary choice. Secondly, it draws on output indicators available in the public domain to assess the impact of the significant growth in the Scottish Budget on public services. Thirdly, it raises a number of issues for discussion regarding the approach to the next Spending Review, and the information and research requirements to inform budgetary deliberations.

4. Since the Committee began this background work, the Chancellor has announced that the next Spending Review will be delayed until 2007. This will have implications for planning and decision making in Scotland. Further, the Executive has agreed to undertake a Baseline Budget Review which provides a fundamental re-examination of current programmes. The Finance Committee has acquired a good understanding of the costs and demands on such programmes from its work on budget scrutiny, and makes recommendations for the Executive to consider.
The Constraints on Budgetary Choice

5. The Executive has adopted an approach to the budget which includes the recent convention of budgeting for outcomes, but within a classic incremental model of adjustments at the margins. This involves both the identification of savings and the identification of proposals for additional spending. Since devolution, the main emphasis has been on the allocation of the increment of budgetary growth, although in SR 2004, the introduction of the Efficient Government Initiative gave added weight to the savings exercise. Although the rate of expenditure growth fell in real terms by around 1% to 3.5% per annum over the SR 2004 cycle, the Finance Minister reported that when the savings from Efficient Government were included, then 5% new spending on programmes in the frontline were planned (Scottish Executive 2004, pv).

6. The expectation is of a tighter settlement in the UK Government’s SR 2007, making it important to make a rigorous and realistic assessment of the scope for savings within current baselines. There are a number of important constraints on adjusting expenditure, including ring-fencing; existing commitments; and demand led programmes. In addition, programmes have discretionary components which can be adjusted upwards or downwards in the short-term. Budget exercises are the means of financing government policy, not reviewing it, so the Committee’s work is concentrated on changes to existing programmes.

7. As the real scope for change is at the margins, the existence of constraints makes it imperative that any additional resources, and any resources which can be freed up by a systematic review of the baseline, are targeted on key priorities. This is a major element of the Committee’s scrutiny.

Ring-fenced Expenditure

8. Ring-fenced expenditure is classified in the budget as Annually Managed Expenditure (AME) and such programmes are not normally subject to End Year Flexibility (EYF). Such programmes mainly take the form of grants or payments, and do not generate recurring revenue costs for the Executive. The full list of AME will be set out prior to the next Spending Review in the Treasury Statement of Funding Policy. Some programmes are consistently dealt with as AME, whilst others are ring-fenced in their early years then transferred into the block grants once established. Examples include New Deal for Schools and Welfare to Work. At the moment, the main AME programme is Common Agricultural Market Support of £352m, which provides financial support to farmers on the basis of processed applications for a range of payment schemes. In addition, there are a number of budgets highlighted within the rural development programme which include EU funding and Departmental Expenditure Limit (DEL) matching funds.
The EU element is £25m from AME, but the total spend in these budgets is £118m, which in practice is ring-fenced.

9. Another major source of ring-fenced funding is *European Structural Funds*, allocated through both central and local government, with a current budget of £161m and includes the *European Regional Development Fund* (ERDF) and the *European Social Fund* (ESF). These funds are targeted on EU designated areas.

10. *Housing Support Grant* (HSG) is provided to a few local authorities. Current provision is £10m, but will fall to £7m by 2007-08. HSG was £12m in the 2000 study and the fall reflects the trend for councils to dispose of their housing stock to Housing Associations.

11. A major new ring-fenced programme from 2000 was the *Supporting People Fund*. Initially, this was mainly funded by AME, but included additional expenditure from the DEL, with a total provision of £406m in 2005-06 (letter to Finance Committee from the Minister). It is now incorporated into the DEL.

12. Another major source of ring-fenced expenditure is that of the *Scottish Public Pensions Agency* (SPPA). It covers local authority staff from within AME, and other schemes, including MSPs pensions, from within the DEL. The total budget is £1bn for 2005-06. *Education Maintenance Allowances* are an expanding programme of £28m which will rise to £43m by 2007-08. Finally, under the resource accounting system, £429m of roads "cost of capital" funding is classified in the budget as AME.

13. A further item which is ring-fenced is Non-Domestic Rates Income (NDRI). This is classified as AME, but because it is set by the Executive should be regarded as discretionary. Overall, this suggests a significant growth of ring-fencing since devolution, totalling expenditure of £2bn for 2005-06, representing 7.3% of Total Managed Expenditure (TME) (Scottish Executive 2004c), compared with £854m in the 2000-01 budget, which represented 4.8% of the 2000-01 TME (Scottish Executive 2001). Some of this change to ring-fenced expenditure can be explained by a technical accounting adjustment to SPPA to recognise the potential liabilities of future provision payments rather than current costs. Even excluding pensions, however, the trend of increasing ring-fenced expenditure remains the same. Excluding the SPPA budget leaves ring-fenced expenditure in 2005-06 at 5.5% of TME compared with 3.1% of TME in 2000-01. (see Table 1)

**Demand-Led Programmes**

14. There are a number of programmes where the scope to influence spending is limited because of their demand-led nature. Such programmes create *entitlements* to those eligible for them, and it would require either legislative or policy changes regarding such entitlements.
to influence budgetary provision. In most cases, the expectation is that departments will manage any overspend/shortfall within their budget as a whole. The cash entitlements are enshrined in existing statute or policy, and the budget provisions reflect departmental estimates of demand for these entitlements. There would be little point in increasing or decreasing planned budget provision as outturn expenditure will reflect demand.

15. In the 2000 study, some £383m (or 2.1% of TME) of expenditure was on such programmes. Since then, new programmes for tuition fees, concessionary fares and personal care for the elderly have increased the total commitments to £824m in 2005-06 (or 3% of TME) as set out in the table below. The latter two programmes are within Grant Aided Expenditure (GAE), so local authorities will have to manage any discrepancies. As with ring-fencing, the share of the budget ‘committed’ in this way has increased. (see Table 2)

Committed Expenditure

16. This constraint reflects the practice of Executive and/or its agencies entering contracts or making commitments to incur expenditure over a number of years, for example through legally committed contracts for capital expenditure or service delivery, or as matching funds with EU expenditure.

17. *Capital Expenditure* is defined by the Treasury as expenditure on new construction, land, extensions and alterations of existing buildings, and the purchase of fixed assets such as plant and machinery. Under resource accounting, expenditure which does not create an asset to the Executive or its agencies – for example, schools, for local authorities – and thus add value to the Executive’s stock of capital, is not treated as capital for accounting purposes.

18. For resource allocation purposes, however, such expenditure by local authorities or private sector bodies, although funded in the Scottish Budget, meets the Treasury definition and is subject to similar constraints in terms of its relative inflexibility in the short-run. The breakdown in accounting terms between capital and resource funding is shown in Table 3.

19. In 2000-01, capital spending of £1.8bn accounted for 10.7% of the Scottish Budget. In SR 2004, the Executive made a high profile commitment to increase capital spending by at least 5% per annum in real terms over the SR cycle. In 2005-06, the combined total (capital + resource, including PPPs) is £3bn, or 11% of TME. This is now known as the Infrastructure Investment Commitment (IIC) and will grow by 2007-08.

20. Major capital projects take at least 2-3 years to complete, and programmes vary in the extent to which allocations reflect
commitments from previous years. In 2000, Midwinter and Stevens were advised to assume that around 25% of capital allocations were available for new projects, making 75% committed by previous decisions. This may now vary slightly because of the growth in capital spending.

21. The capital expenditure figures in Table 3 include capital elements of PPP spend. However, the annual payments under PPP contracts also represent expenditure commitments of a long-term nature, which is inescapable unless the Executive terminates the contracts (ie buys them out). In 2000-01, the annual revenue cost was £261m, or 1.5% of TME, increasing in 2005-06 to £407m, but remaining at 1.5% of TME.

22. A final dimension is the practice of contracting-out service delivery to the private and voluntary sector. Again, there is a lack of clear information on the scale of such commitments, and many small contracts are also made by service bodies. We note below some of the major contracts in the transport portfolio which we are aware of – and which were not included in the 2000 report. These can last 5-10 years, and are as follows:

- Ferry Support: £59.7m
- Air Support: £40.4m
- Rail Franchise: £259.3m
- Motorways and Trunk Roads: £264.9m

23. There will be further contractual commitments in other portfolios, and in local government, which we are unable to quantify at this stage. The contracts identified account for some £624m of expenditure which is inflexible in the short-term.

**Trends In Spending and Outputs**

24. In this section, we examine the impact of political choices on budget allocations, and thus on outputs. In the preceding section, we identified those programmes which are difficult to change, whether through ring-fencing, levels of demand, or existing commitments. In total, these now account for at least £5.897 billion, or 21.6% of the Scottish TME, a growth of 5% over the position in 2001-02. The remainder of the budget, some £16 billion, may be regarded as discretionary as it can be adjusted upwards or downwards in the short term. However, in practice the scope for change is constrained by inherited spending patterns.

25. Public expenditure is a measure of the cost of providing current services. Schools, hospitals, roads etc. already exist, and the budget provides the means for resourcing them. Current expenditure covers the staff costs and operational costs of delivering such programmes. In the Midwinter and Stevens report, staffing costs were estimated by the Executive to be around 50% of the Scottish budget. This probably
understates the degree of the discretionary budget incurred on staff, as the new discretionary expenditure discussed in the previous section mainly consists of programmes which provide funding to other organisations or individuals rather than public services per se. In short, the share of discretionary spending devoted to staff costs is likely to be higher than the 50%. It is therefore easier to increase discretionary spending than decrease it, as labour intensive services are constrained by the rights of staff under employment law. Reductions in staffing costs which go beyond non-filling of vacancies or voluntary redundancy may well generate higher costs than savings in the short-term, making it impractical to pursue major savings, except over the longer term.

26. This distinctive feature of the Scottish Budget is particularly marked in the major spending programmes of health and local government. It makes it difficult to apply industrial concepts of productivity to the public sector, when the professional work of doctors, nurses, police officers, teachers or home helps actually constitutes the significant element of a service. If the output of a company is a product such as compact disks, then productivity increases by altering the ratio of workers to products. Reduction in teaching staff numbers will reduce the output in terms of hours taught in classrooms. In short, staffing – which is often regarded as a resource input in the private sector – is actually a service output in the key public services.

27. In describing such programmes as “discretionary”, we mean that the level and quality of service may be discretionary, rather than the need to provide any service at all. The statutory duty in health is the provision of a comprehensive and integrated health service free of charge to the public. Therefore, whilst the Executive cannot decide not to fund the NHS in the budget (it would require legislation to repeal the statutory obligation), how much it spends is a matter of discretion.

28. Table 4 sets out the growth in real terms in the main portfolios. We have excluded the education portfolio, as it gives a misleading impression of the position of education as a whole, which is contained in the local government (£3.8 billion) and the Enterprise & Lifelong Learning (ELL) (£2.1 billion) budgets. Whilst the Education and Young People (EYP) portfolio has grown by 60% since devolution, it is a small element of the total education spend at £445 million in the current year. Nevertheless, overall, health, education and transport have received above average increases in the post-devolution period. (Finance Committee, 9/9/2004).

29. The Midwinter and Stevens report argued that it was likely that budget-makers would concentrate on the increments of growth rather than redistribution within baselines, in the context of £1 billion plus growth per annum. The time-series data produced last year confirmed this to be correct. Whereas there have been real increases in most Level Three programmes since 1999, only water services, Scottish Enterprise and legal aid budgets were actually reduced, saving £45
million. Further, we could find only one Level 3 programme which has been discontinued, namely the early redemption of Scottish Homes debt.

30. This raises the question as to how the growth monies of £4.6 billion in real terms was used from 1999 to 2004. Budgets can be increased for a number of reasons. Firstly, through inflationary pressures on costs, of which public sector pay is the most significant. During this period, a number of major pay awards were provided for key groups, to address capacity problems (problems of recruitment and retention of staff), such as teachers, nurses and junior doctors. Further, we are advised that the final cost of the new pay deal for GPs and consultants will far outweigh the cost of the junior doctors settlement.

31. These can be significant, some £544m p.a. in the case of the McCrone recommendations which became known as 'modernising the teaching profession', in contrast with £12m pa for the revision to the junior doctors contract, or £5m for pay modernisation in the NHS. Regrettably, a comprehensive record of the impact of the pay settlements on budgets is not produced, but it is possible to make a broad assessment of pay trends.

32. The overall growth in public sector pay over the period was 2.3% p.a. in real terms. This is well below the 5.5% p.a. growth in real spending – which totals £4.6 billion. If we assume that staffing costs are around 50% of total costs, the 2.3% growth in pay per annum is equivalent to 21% of the total £4.6 billion, or just under £1 billion. Approximately £3.6 billion of growth monies therefore was available for service development.

33. The second key factor is the expansion of existing programmes e.g. through employing more teachers, building more houses, or funding more students. The analysis is carried out in two ways. Firstly, data on staffing numbers and levels is examined, and secondly, data on service outputs. This is of necessity incomplete as comprehensive data in a viable form is not available in the public domain. We have therefore used the available indicators from a range of Executive documents. The data is measured using both actual numbers and appropriate population-based ratios. During this period, the Scottish population was falling slightly, in total, and in numbers of children and working age adults. Numbers of pensioners, however, were growing.

34. This is reflected in the results, in Table 5, which shows increases in staffing levels in the major services (health, social work and education) and even greater growth when population based ratios of staffing levels per capita are used. Table 6 records some output measures in terms of students/pupils taught, patients treated etc, and Table 7 for other service outputs.
35. The third effect on new spending is the introduction of new Level 3 programmes. These are set out in Table 8. These tend not to be in labour intensive services, but in the form of travel subsidies, capital investment and other forms of grant. These totalled around £1464.9m in 2005-06. In addition, there have been service developments within the health and local government block grants, which are not recorded as Level 3 programmes (see table 9). The local government new initiatives add £419.9m to the total, making a grand figure of £1884m in new initiatives. These show that the combination of budgetary growth with population decline allowed for significant growth in service levels of £3.6 billion.

Conclusions

36. This review of budgetary decisions between 1999 and 2004 has shown that these have been focussed mainly on allocating the increment of growth. Few Level 3 programmes have been cut and none have been terminated. In contrast, service developments of around £3.6 billion—around 4% p.a. of service developments over 5 years.

37. In addition, budgetary growth has allowed the Executive to make progress in tackling problems of service capacity, through significant increases in salaries for teachers, nurses and doctors. Overall, however, whilst public sector pay has improved in real terms by around 2.3% p.a., this is broadly in line with the 2.2% movement in earnings across the economy as a whole.

38. In terms of the Executive’s objectives for service improvement, improved staffing levels in hospitals and schools, in social work, residential care and policing, plus major new investments in public transport have all been possible.

39. The review also shows, however, that the degree of ring-fencing of expenditure (in the sense of being committed and inflexible in the short-run) has increased since 2001, making it more difficult to release resources to meet budget priorities.

40. In the June announcement on EYF, however, the Finance Minister reported to Parliament that “the rate of growth of public spending is bound to slow after current plans come to an end.” This view is also consistent with the Chancellor’s decision to delay the next UK Spending Review until 2007. Whilst media commentators interpreted this as a move to delay tax increases it also provides valuable time to reappraise spending performance and rethink priorities. For eight years the Scottish Budget was growing faster than the rate of economic growth, and this will be difficult to sustain much longer. Spending restraint is more likely.

41. This raises fundamental choices on public spending, between continuing to rely on more modest levels of incremental growth to
advance the budgetary strategy, or to undertake a rigorous and systematic review exercise with a view to releasing resources to fund priorities. SR 2004, although it made economic growth the main priority, delivered a similar pattern to previous SRs with big increases in spending on health, education and transport, with the important exception of capital investment which will grow rapidly over the next two years. After a lengthy period of growth, the delay in the Spending Review process offers the opportunity for a much more critical review of spending performance than usual. The Committee, therefore, recommends to the Executive that it undertakes a more rigorous and extensive Baseline Budget Review than is normal.

42. The Executive has, of course, launched its Efficient Government Initiative, but only cash releasing savings will help. As we have seen, the goal posts are moving on the savings targets, but the latest total relevant to the DEL is £731m, or 0.9% over the Spending Review period – with a further target to reach £1.2 billion by 2009-10 (or £1.1 billion as water services do not affect the DEL). That is, a further £400m is the target, which broadly continues the current trend.

43. In practice, however, cutting 2% off RSG for local government, or 1% of the NHS budget, are simply reductions, not efficiency savings. The Committee remains doubtful over the attainability of the Executive’s plans. The savings targets for 2008-09 and 2009-10 may well allow portfolios to retain the resources to expand their own front-line services.

44. In short, if the Executive and Parliament is to seriously pursue releasing resources to fund further investment in priorities then the efficiency savings will not suffice and a more systematic review of the need for and effectiveness of current programmes is necessary, which recognises that this will entail hard choices over cutting programmes, rather than the soft target of bureaucracy, which accounts for less than 4% of the Scottish Budget.

45. This will also require a fundamental reappraisal of spending priorities by the Parliament’s Subject Committees, and we shall be seeking views from them as to High and Low priorities for expenditure to inform our recommendations to the Executive for the Spending Review exercise. The Finance Committee will act positively to promote rigorous budgetary discipline and priority setting in its work.

46. The next Spending Review seems likely to bring the first experience of budgetary restraint since devolution and the first test of Parliament’s capacity to make hard choices. The interim period should be used to prepare for that process.
References


### Table 1: Ring-fenced Expenditure in 2005-06

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<th>Programme</th>
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<td>Common Agricultural Policy Market Support</td>
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<td>Rural Development Programmes</td>
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<td>European Structural Funds</td>
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<td>Housing Support Grant</td>
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<td>Roads Cost of Capital</td>
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<td><strong>Total ring-fenced</strong></td>
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Source: Adapted from Scottish Executive (2004c)

### Table 2: Demand-led Expenditures 2005-06

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<th>Programme</th>
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<td>Bus Service Operators Grant</td>
<td>55</td>
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<td>Student Awards Agency (Fees, Grants and Loans)</td>
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<td>Criminal Injuries Board</td>
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<td><strong>Total Demand-Led</strong></td>
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Source: Adapted from Scottish Executive (2004c)
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<td>846,149</td>
<td>625,382</td>
<td>407,000</td>
</tr>
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</table>
Notes
1. Estimated payments under PPP contracts (FCSD figures comprise PPP projects undertaken by Local Authorities and so include waste management and schools PPP projects)
2. Approximately £169m of the ETLL direct capital scores outside DEL and AME
3. Approximately £290m of FCSD capital grants to local authorities is Local Authority Supported Borrowing
### Table 4. Real Terms Growth in Main Programmes 1998-2004*

<table>
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<tr>
<th></th>
<th>1998-99</th>
<th>2003-04</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>5,224</td>
<td>6,863</td>
<td>31.4</td>
</tr>
<tr>
<td>Local Government</td>
<td>5,360</td>
<td>6,696</td>
<td>24.9</td>
</tr>
<tr>
<td>Enterprise</td>
<td>632</td>
<td>654</td>
<td>3.5</td>
</tr>
<tr>
<td>Transport</td>
<td>380</td>
<td>807</td>
<td>112.4</td>
</tr>
<tr>
<td>Lifelong Learning</td>
<td>1458</td>
<td>1709</td>
<td>17.2</td>
</tr>
<tr>
<td>Housing and Regeneration</td>
<td>599</td>
<td>678</td>
<td>13.2</td>
</tr>
</tbody>
</table>

*Average increase in Scottish Budget was 27.5%*

Source: Adapted from Scottish Executive (2004b)

### Table 5: Trends in Public Service Staffing Levels in Social Services

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2004</th>
<th>% Change</th>
<th>% Change per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Work</td>
<td>33828</td>
<td>40985</td>
<td>+21</td>
<td>+23</td>
</tr>
<tr>
<td>Care Assistance*</td>
<td>47000</td>
<td>65000</td>
<td>+38</td>
<td>+32**</td>
</tr>
<tr>
<td>Teachers</td>
<td>49056</td>
<td>49554</td>
<td>+1</td>
<td>+5***</td>
</tr>
<tr>
<td>Nursing &amp; Midwifery</td>
<td>51391</td>
<td>54553</td>
<td>+6</td>
<td>+8</td>
</tr>
<tr>
<td>Hospital Consultants</td>
<td>2921</td>
<td>3344</td>
<td>+14</td>
<td>+16</td>
</tr>
<tr>
<td>General Practitioners</td>
<td>3832</td>
<td>3935</td>
<td>+3</td>
<td>+4</td>
</tr>
<tr>
<td>Dentists</td>
<td>1996</td>
<td>2161</td>
<td>+8</td>
<td>+10</td>
</tr>
<tr>
<td>Ambulance Staff</td>
<td>2358</td>
<td>2779</td>
<td>+18</td>
<td>+20</td>
</tr>
</tbody>
</table>

* Data from 2001 only available
** Data per elderly person used
*** Teachers per pupil used

### Table 6: Output Indicators for Health and Education

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2004</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>HE Students</td>
<td>186,720</td>
<td>191,205</td>
<td>+2</td>
</tr>
<tr>
<td>FE Students</td>
<td>71,259</td>
<td>88,178</td>
<td>+24</td>
</tr>
<tr>
<td>School Pupils</td>
<td>746,965</td>
<td>715,780</td>
<td>-4</td>
</tr>
<tr>
<td>GP Consultations</td>
<td>16.4m</td>
<td>15.6m</td>
<td>-5</td>
</tr>
<tr>
<td>Outpatient Appointments</td>
<td>1,369,155</td>
<td>1,348,690</td>
<td>-1.5</td>
</tr>
<tr>
<td>Attendance at A &amp; E</td>
<td>1,566,258</td>
<td>1,551,942</td>
<td>-1</td>
</tr>
<tr>
<td>Principal Operations Performed</td>
<td>759,775</td>
<td>730,660</td>
<td>-4</td>
</tr>
</tbody>
</table>
### Table 7: Miscellaneous Service Outputs

<table>
<thead>
<tr>
<th>Service</th>
<th>1999</th>
<th>2004</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Housing Completions</td>
<td>4992</td>
<td>2522</td>
<td>-49</td>
</tr>
<tr>
<td>Public Road Length</td>
<td>53,529km</td>
<td>54,509</td>
<td>+2</td>
</tr>
<tr>
<td>Local Bus Journeys</td>
<td>434 million</td>
<td>445 million</td>
<td>+2.5</td>
</tr>
<tr>
<td>Air Journeys</td>
<td>15,941,000</td>
<td>21,084,000</td>
<td>+32</td>
</tr>
<tr>
<td>Ferry Journeys</td>
<td>5,327,000</td>
<td>5,738,000</td>
<td>+8</td>
</tr>
</tbody>
</table>

### Table 8: New Level 3 Programmes Since Devolution

<table>
<thead>
<tr>
<th>Programme</th>
<th>Cost in 2005-6 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Waiting Times Centre</td>
<td>29.8</td>
</tr>
<tr>
<td>NHS 24</td>
<td>46.5</td>
</tr>
<tr>
<td>Glasgow Hostels</td>
<td>5.0</td>
</tr>
<tr>
<td>Coronary Heart Disease/Stroke</td>
<td>20.0</td>
</tr>
<tr>
<td>Audiology Services Modernisation</td>
<td>6.0</td>
</tr>
<tr>
<td>Mental Wellbeing Fund</td>
<td>6.0</td>
</tr>
<tr>
<td>Mental Health Act Implementation</td>
<td>4.3</td>
</tr>
<tr>
<td>Rail Services in Scotland</td>
<td>259.4</td>
</tr>
<tr>
<td>Campbelltown Ferry</td>
<td>0.7</td>
</tr>
<tr>
<td>BUC Tribunal</td>
<td>0.1</td>
</tr>
<tr>
<td>Bus Route Development Fund</td>
<td>7.0</td>
</tr>
<tr>
<td>Concessionary Fares</td>
<td>10.0</td>
</tr>
<tr>
<td>Smartcard</td>
<td>3.0</td>
</tr>
<tr>
<td>Integrated Transport Fund</td>
<td>223.9</td>
</tr>
<tr>
<td>Road Haulage Modernisation Fund</td>
<td>3.8</td>
</tr>
<tr>
<td>Traveline</td>
<td>1.0</td>
</tr>
<tr>
<td>Transport Agency</td>
<td>2.8</td>
</tr>
<tr>
<td>Rail Review</td>
<td>0.9</td>
</tr>
<tr>
<td>Road Improvements</td>
<td>37.7</td>
</tr>
<tr>
<td>Water Environment</td>
<td>1.9</td>
</tr>
<tr>
<td>Noise and Air Quality</td>
<td>3.3</td>
</tr>
<tr>
<td>Environmental Justice</td>
<td>1.0</td>
</tr>
<tr>
<td>Organic Aid</td>
<td>2.6</td>
</tr>
<tr>
<td>British Waterways</td>
<td>8.9</td>
</tr>
<tr>
<td>Rural Stewardship Scheme</td>
<td>29.9</td>
</tr>
<tr>
<td>Farm Business Development Scheme</td>
<td>9.0</td>
</tr>
<tr>
<td>Farm Waste Grant</td>
<td>5.8</td>
</tr>
<tr>
<td>Mobility</td>
<td>0.5</td>
</tr>
<tr>
<td>Track Access Grants</td>
<td>1.0</td>
</tr>
<tr>
<td>Farm Business Advice</td>
<td>2.0</td>
</tr>
<tr>
<td>Timber Transport Fund</td>
<td>3.0</td>
</tr>
<tr>
<td>Cities Growth Fund</td>
<td>40.0</td>
</tr>
<tr>
<td>Incentives</td>
<td>10.0</td>
</tr>
<tr>
<td>Standards Commission</td>
<td>0.4</td>
</tr>
<tr>
<td>Digital Inclusion</td>
<td>0.15</td>
</tr>
<tr>
<td>COPFS Inspectorate</td>
<td>0.35</td>
</tr>
<tr>
<td>Programme</td>
<td>£m</td>
</tr>
<tr>
<td>-------------------------------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Modernising Government Fund</td>
<td>15.0</td>
</tr>
<tr>
<td>Efficient Government Fund</td>
<td>45.0</td>
</tr>
<tr>
<td>Improvement Service</td>
<td>0.17</td>
</tr>
<tr>
<td>Scottish Family History Service</td>
<td>1.4</td>
</tr>
<tr>
<td>Supporting People Fund</td>
<td>402.0</td>
</tr>
<tr>
<td>Scottish Building Standards Agency</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£1,448.5m</strong></td>
</tr>
</tbody>
</table>

**Table 9: New Programmes Below Level 3 Funded Within the Block Allocations to Health and Local Government**

<table>
<thead>
<tr>
<th>Programme</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean Hospitals</td>
<td>5.0</td>
</tr>
<tr>
<td>Flu Antivirals</td>
<td>7.8</td>
</tr>
<tr>
<td>Flu Vaccine for Carers</td>
<td>3.6</td>
</tr>
<tr>
<td>Deferred Purchase Scheme for elderly persons entering care homes</td>
<td>3.5</td>
</tr>
<tr>
<td>Better Neighbourhood Fund</td>
<td>31.2</td>
</tr>
<tr>
<td>Strategic Waste Fund</td>
<td>111.7</td>
</tr>
<tr>
<td>Changing Children’s Services Fund</td>
<td>65.0</td>
</tr>
<tr>
<td>Free Personal Care (inc. DWP transfer for residential allowance)</td>
<td>188.0</td>
</tr>
<tr>
<td>Land Reform</td>
<td>1.6</td>
</tr>
<tr>
<td>Access to Countryside</td>
<td>8.1</td>
</tr>
<tr>
<td>Discipline Task Force</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>£436.3m</strong></td>
</tr>
</tbody>
</table>
Finance Committee
19th Meeting 2005 – Tuesday 13 September 2005
Cross-cutting Review of Expenditure on Deprivation
Round Table Discussion

Background

1. The Committee has agreed to open the evidence sessions for its Cross-cutting Review of Expenditure on Deprivation by holding a round-table evidence session.

2. A number of academics and consultants were invited to participate. A list of participants is attached to this paper.

3. The Committee has commissioned external research on the statistical validity of the Scottish Index of Multiple Deprivation from Professor Glen Bramley. Professor Glen Bramley will open the session with a short presentation on his research, which has been circulated to members with the papers for this meeting. The electronic version of the report will be available via the Review website at:

   http://www.scottish.parliament.uk/business/committees/finance/inquiries/deprivation/fc-dep-index.htm

4. The discussion participants were invited to submit written evidence based on the inquiry remit. Submissions were received from:

   • Norma Hurley, Blake Stevenson Ltd
   • Professor Matt Sutton, University of Aberdeen
   • Professor Mark Shucksmith, University of Newcastle Upon Tyne (who is unable to attend the meeting).

5. These responses are attached.

Recommendation

6. Members are invited to consider the commissioned research and the written submissions to inform their debate.

Susan Duffy
Clerk to the Committee
PARTICIPANTS

Professor Glen Bramley, Heriot-Watt University
In 1994 Professor Bramley took up the post of Professor of Planning and Housing at ECA/Heriot-Watt University in Edinburgh, where he has directed the School's research programme (now worth £1m annually), and is actively engaged in projects for the DETR, Scottish Executive, ESRC and other bodies. Recent work is focused particularly on housing need and areas of low demand for housing, flows of funds to local areas, planning for new housing and the impact of planning and infrastructure on city competitiveness. He directs a new Centre for Research into Socially Inclusive Services (CRSIS) established in 2001 with £0.5m support from the Scottish Higher Education Funding Council. In August 2002 the School of Planning & Housing moved to become part of the new School of Built Environment at Heriot-Watt University, based at the Riccarton Campus in Edinburgh.

His publications include Planning, the Market and Private Housebuilding (UCL Press 1995), Equalization Grants and Local Expenditure Needs (Avebury 1990) and Analysing Social Policy (Blackwell 1986), as well as numerous articles in journals such as Urban Studies, Housing Studies, Environment and Planning, Regional Studies, Policy & Politics. He was the lead author of the recently-published Scottish Executive Research Report on The Role of the Planning System in the Provision of Housing and major recent DETR studies on Low Demand Housing and Unpopular Neighbourhoods and Where does Public Spending Go?

Norma Hurley, Blake Stevenson Ltd
Norma is one of the founding directors of the consultancy Blake Stevenson Ltd. She established the company with Glenys Watt in 1992, having previously worked as a freelance consultant for four years. Prior to working in consultancy Norma worked as an FE lecturer and as a researcher and trainer in FE, Community Education, and Adult Education. Within the company Norma has specialist expertise in areas of strategic reviews, management development and evaluations. Issues on which Norma has expert knowledge include social economy development, social inclusion, and criminal justice/community safety

Professor Alan McGregor, University of Glasgow
Professor McGregor is a professor of Economic Development and the Director of the Training and Employment Research Unit at the University of Glasgow. Professor McGregor holds a number of appointments at Glasgow University namely, Director of the Training and Employment Research Unit (TERU), Professor of Economic Development. He has advised a range of national and international agencies at various times including the OECD, the European Commission, the Department for Work and Pensions, the Scottish Executive, Scottish Enterprise and others. He is the Chair of the Castlemilk Economic Development Agency, an economic regeneration body responsible for an area with a population of 20,000 people
Professor Stephen Syrett, Middlesex University
Professor Syrett is Reader in Local Economic Development and a member of the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University. His research interests include processes of socio-economic restructuring and their interrelationships with urban and local/regional development contexts; changing forms of governance at local, regional, national and supranational levels and their consequences for processes of local/regional economic development and policy formation; capacity building and community based economic development; and the role of social capital and social entrepreneurs in area based regeneration. He has undertaken research for a range of bodies including the Joseph Rowntree Foundation and the Neighbourhood Renewal Unit of the Office of the Deputy Prime Minister.

Professor Matt Sutton, University of Aberdeen
Matt is the Director of the Behaviour, Performance & the Organisation of Care Programme at the University of Aberdeen. He holds a degree in Economics with Econometrics from the University of Leeds, and an MSc in Health Economics and PhD in Economics from the University of York. He worked from 1991 at the Centre for Health Economics at the University of York before taking up a secondment at the Scottish Executive in 1999. Prior to joining HERU in December 2004, he worked in General Practice & Primary Care at the University of Glasgow with a part-time secondment to the Information Services Division of NHS National Health Services Scotland, which is ongoing. Matt's research interests are in applied microeconometrics, health inequalities, and equity and efficiency in health care.

Professor Ivan Turock, University of Glasgow
Professor Turock is Professor of Urban Economic Development, Director of Research and Leader of the Urban Change and Policy Research Group at the University of Glasgow. His research interests include the economy of cities, regional development, local labour markets, area regeneration and policy evaluation.

Peter Wood, Tribal HCH
Peter began his career as a lecturer in Economics at the University of Aberdeen & has worked in consultancy since 1982. He led the economics practice of Pieda plc prior to the firm’s merger with DTZ, and was subsequently Head of Economics and Public Policy with DTZ Pieda Consulting. He has directed numerous policy reviews and research projects for central and local government and other public bodies throughout the UK and Ireland. His main areas of expertise include housing market economics, economic impact analysis and the economics of public expenditure.
Submission from Norma Hurley  
Director, Blake Stevenson Ltd.

Thank you for the opportunity to submit a short paper in advance of the Round Table. It may be helpful for the Committee to know a little about who Blake Stevenson Ltd are in order to place our evidence in context.

We are a social and economic development consultancy company, established in 1992, and working throughout Scotland, the UK and the rest of Europe. We are focused on action research and work on contracts for public sector organisations including the Scottish Executive, Scottish Enterprise, local authorities, health boards, and Communities Scotland.

In 2002 we were commissioned by SPICe to produce a report for the then Enterprise and Lifelong Learning Committee which mapped and costed all post school education and training in Scotland.

Our areas of expertise are: employability, social inclusion, health and well-being, children and young people, equalities, regeneration, and community planning.

Expenditure on Area-based Deprivation

In our experience of more than fifteen years’ work with people who live in areas of deprivation, the best way of allocating funding for deprived areas is to move away from an approach which focuses on area-based funding, as a separate strand from individual or family based funding, and towards a strategy which blends an area-based approach with a holistic approach to addressing multiple disadvantage amongst individuals.

The Social Justice Milestones and all other measures of poverty in Scotland demonstrate there is overall progress in helping move individuals and families out of poverty. The Executive is to be commended for its Closing the Opportunity Gap initiative which has put the alleviation of disadvantage at the heart of government policy.

However, as is clear from the Committee papers already in the public domain, evidence we would support from our direct research, the present system of funding for area-based deprivation, and for individual multiple disadvantage, is:

- Confusing
- Overlapping
- Overwhelmingly short term
- Insufficiently linked into mainstream provision or funding
- Not targeted on the holistic needs of individuals
- Not measurable across the board – the timing, regulations, targets and monitoring systems vary from initiative to initiative
The Committee will already be aware of the confusion of funding initiatives channelled through the Executive to deprived areas and the equally confusing range of funding initiatives targeted on disadvantaged individuals.

It appears there is often no clear distinction or rationale on the part of the Executive as to which funding is targeted on area-based deprivation and which is funded on disadvantaged individuals and families.

For example, there seems to be no obvious logic as to why the Financial Inclusion Fund of £10 million is defined as a fund for individuals and families rather than an area-based fund. Indeed, the Executive’s paper says, “nearly half of people living in the most deprived 5% of data zones are defined as income deprived” …..and the “financial inclusion fund is likely to bring disproportionate benefits to deprived areas”.

Similarly, although the Supporting People Fund of £1,208 million is identified as being a funding stream for deprivation, in fact only 20% of the fund is allocated on the basis of the number of people living in the most deprived 15% of neighbourhoods – although clearly this does not necessarily mean that 20% of the fund will be spent in those areas.

The difficulty faced by the Executive is understandable. As the paper by the Committee’s Adviser demonstrates, not only are definitions and descriptions of deprivation imprecise, there are a variety of indices used to measure deprivation.

It is necessary therefore to have debate and discussion over whether funding should be area-based (and if so to which size of areas and which percentage of deprived communities should be funded and so on), or whether funding should be individually targeted, and if so how should that be measured – a task which the SIMD admits is extremely difficult.

The measures used to define disadvantage or area-based deprivation are extremely important, but equally important is how the measures are used.

Ultimately we would suggest the aim is to use whichever measures are chosen to ensure that there is a logical, coherent, and transparent system of funding which enables services to be provided to meet the needs of individuals experiencing multiple disadvantage.

With that in mind, whilst tools such as SIMD and SHS are essential for providing the data on levels and areas of deprivation – the question arises as to how national level funding can be best used by the mainstream service deliverers, working in partnerships such as Community Planning or Community Health to offer a holistic response.

The approach of using local collaboration to deliver local services for local need - could enable a uniform system for monitoring spend against agreed common targets and outcomes to be developed between the Executive and the mainstream providers.
It may then be possible to move on to tackle the issue of the confusion of funding streams for deprivation and disadvantage coming through the Lottery, ESF, corporate social responsibility foundations and various other grant funding and charitable bodies.

Finally, to return to why this is such an important issue, it may be helpful to offer the Committee evidence from our research, both direct and indirect, with individuals experiencing multiple disadvantage, living in areas of deprivation, ie the potential recipients of the Executive’s expenditure.

The individuals we interview or work with usually face multiple disadvantages.

There may for example be a single mother with physical and mental poor health, poor literacy skills, a high level of indebtedness, and low level of education. She may live in relatively poor housing and her children may not be thriving at school.

Or there may be a Pakistani family where the father is physically exhausted from overwork, the mother has poor English language skills and the son in the family has been truanting because he is being racially harassed at school, but is now at risk of becoming involved in criminal activity.

There may be a young man who suffered childhood abuse, grew up in care and is now addicted to heroin but wanting to change his life and get away from the violent and dangerous environment he lives in.

Whilst the individuals may all live in areas of deprivation the services they will need to access are not necessarily located in these areas, nor are they in most cases funded through area deprivation spend.

The families and individuals described above will primarily need access to mainstream services, such as education, health, and social work. These mainstream services are meant to provide services to all citizens without having to “bend” their services to them.

The concept of “bending” mainstream services for certain citizens or groups of citizens is a strange idea. Surely mainstream services ought to be configured in the first place to serve the known needs of all citizens in an equitable way? For example, if in a given area there is a relatively high incidence of teenage pregnancy should not the planning of mainstream health spend include an allocation for health promotion to tackle this issue?

Ideally, in the instances described above, each individual would be able to receive one to one support from a professional worker who could work with the individual to build a plan for addressing and improving their situation. The worker, with the individual, could work out which service to access, in which order, and what the expectation of outcomes might be.

This holistic approach is beginning to emerge in some parts of the country through some collaborative and partnership working. However, there are still
deep-rooted issues of individuals falling between the gaps of provision or of individuals not being able to access mainstream services because the services are insufficiently flexible to meet their needs.

We suggest areas are deprived because the people living in them are disadvantaged. Supporting individuals to help themselves to improve their own lives will lead to economic improvement, and will in turn address many of the problems of area-based deprivation.
Submission from Matt Sutton, Professor of Health Economics, Health Economics Research Unit, University of Aberdeen

Background

The Finance Committee has adopted the following remit ‘To review Executive spending on deprivation, and to assess the efficiency and effectiveness of such expenditure and its coherence and consistency as cross-cutting issues, and to make recommendations, where necessary, to improve Executive performance.’

The Committee has agreed to hold a round-table meeting to start its oral evidence sessions for this inquiry. As one of the persons invited to give oral evidence to this round-table meeting, I have prepared the following written submission.

A prime area of expenditure by the Executive is health spending. This is where my expertise lies and I have therefore restricted my written submission to health spending.

Health spending on deprivation

The majority of health expenditure relates to the delivery of health care services. A small amount of resources is aimed at health improvement interventions.

The bulk of resources are allocated in the NHS in the following three-stage manner:

1. From the Executive to NHS Boards
2. From NHS Boards to health care providers, including hospitals and general practices
3. From health care providers to individuals.

The allocation of health care resources to deprived areas is affected by each of these stages.

The first stage is determined by the implementation of the “Arbuthnott Formula”. Target shares are calculated for NHS Boards based on weighted populations, in which the share of Scotland’s population living in each Board area is adjusted to reflect:

- the additional needs of serving older and more deprived populations; and
- the additional costs of providing health care in remote and rural areas.

Financial allocations are made to NHS Boards taking account of these target shares by offering higher growth to those Boards that are below their target shares.

The second stage is influenced by local planning decisions. The resourcing and location of health care providers is left to NHS Board discretion.
The third stage is influenced by clinical decision-making (e.g. who to treat with what intervention) and patterns of demand for care from populations in different areas.

With this background in mind, I have set out below some thoughts on the four questions posed by the Committee.

**What are the most effective types of funding in tackling area deprivation?**

Spending by the NHS is primarily concerned with dealing with the ill-health consequences of deprivation rather than intervening to avoid or reverse the occurrence of deprivation.

Health status is clearly an important determinant of an individual or family’s ability to earn the income and acquire the skills required to lift themselves out of deprivation. Investment in health improvement would therefore be expected to have economic benefits but little is known about the extent to which NHS spending improves health and consequently ameliorates deprivation.

There is much evidence on the extent to which poor health is associated with deprivation. Compared to England, Scotland was late in adopting targets for reducing inequalities in health. The targets are different in design between the two countries. Scotland’s targets are absolute, focusing on the rate of health improvement in the most deprived areas. England’s targets are relative, focusing on the differences between deprived areas and the average or most affluent areas.

Much of the focus of NHS spending on deprivation is on the extent to which the NHS makes health inequalities better or worse, i.e. whether people from deprived areas can access the health care that they need. There have been several reviews of the evidence on whether deprived populations receive a ‘fair share’ of NHS care. The evidence is very variable in its quality, but there is consistent evidence that deprived populations receive less preventive and planned care than they need, and make greater use of unplanned services. Despite various initiatives to address the equity of NHS care, these trends have been remarkably consistent since at least the early-70s.

The recently published “National Framework for Service Change in the NHS in Scotland” considered the challenges facing the NHS and proposed long-term solutions for the future. The Executive is currently considering its response to the review and deriving an implementation plan. Deprivation was one of the factors considered, alongside an ageing population and care delivery in remote and rural areas. The model proposed for deprivation was the introduction of ‘anticipatory care’ in deprived areas. Considerably less effort was expended on, and evidence provided for, this initiative for deprived areas than was devoted to older people and remote communities. For example, the older people and remote area Sub-Groups both contained 15
members, and produced reports of 49 and 61 pages, respectively. The deprivation Task Force contained just 3 members and produced a report of only 11 pages. This is indicative of the lack of evidence available and low priority often given to this issue in NHS planning.

**What are the major financial barriers to tackling area deprivation? What types of action can overcome these?**

The greatest influence that the Executive currently has over the distribution of NHS resources is through the Arbuthnott Formula. In the First Report of the Arbuthnott Review, evidence was presented that deprived areas used less health care services than they needed. A method for adjusting the formula for ‘unmet need’ in deprived areas was developed and proposed by the Review Team but not adopted in the Final Report. While the analysis was under further review in Scotland, these methods were incorporated into and applied in the formula used in England. The further analysis in Scotland was published last year and, in a departure from how NHS resources are usually allocated, it was proposed that additional funding to deprived areas would be ‘piloted’ in three Board areas. The nature of these pilots is still under discussion with the recipient Boards.

The results of these pilots will be considered by the new NHSScotland Resource Allocation Committee established earlier this year. This committee is charged with ‘improving and refining’ the Arbuthnott Formula and will consider explicitly how the formula adjusts NHS spending for deprivation.

Two systemic factors in planning processes are likely to skew resources away from deprived areas:

1. Unless specific thought is given to the issue, the default position in health care planning is to allocate resources on a per capita basis. For example, Community Health Partnerships (CHPs) are likely to be resourced with similar numbers of staff even though deprived CHPs have greater need.
2. Voluntary systems are often adopted for health care initiatives to encourage innovation. It is known that such initiatives are much less likely to be adopted in deprived areas, probably because deprived areas have less capacity to respond to requests for voluntary schemes. Any additional resources or benefits associated with these schemes are therefore less likely to be received by deprived communities.

The type of action required is therefore likely to be purposive and targeted rather than defaulted or voluntary.

**What are the best ways of allocating funding for deprived areas? How can the benefits of available funding be maximised?**

The formula used to allocate funding to NHS Boards takes account of deprivation alongside other factors. Additional funding for deprivation is therefore contained within mainstream funding. Funding is allocated on the
extent of deprivation, so severely deprived areas receive more than moderately deprived areas, which receive more funding than slightly deprived areas, and so on. No specific areas are designated as ‘deprived’ and there are consequently no earmarked funds for deprived areas.

This is appropriate insofar as deprivation is a continuous concept and health deteriorates across the spectrum of deprivation. Mainstreaming of the funds, however, means that it is difficult to track whether the funds for deprived areas reach their intended destination. It is known that there are substantial differences between NHS Boards in the extent to which they target their mainstream funds at their deprived areas. No element of the Performance Assessment Framework for NHS Boards considers the equity with which health care resources are distributed locally and, as far as I am aware, there is no central system for monitoring, incentivising or evaluating the local allocation of resources to deprived areas.

How can the people most affected be best involved in funding decisions?

This is not my area of expertise and so I will offer little comment. My only suggestion is that ‘service redesign’ needs to be driven by those populations that need it most, rather than the concerns of the NHS workforce.
Submission from Mark Shucksmith, Professor of Town Planning, University of Newcastle Upon Tyne

Indicators of Rural Deprivation.

1. Introduction

"Several attempts have been made to construct quantitative indicators of multiple deprivation, and these have been influential in guiding resources to areas where disadvantage is concentrated. Rural disadvantage is not well captured by such indicators which tend to suffer from an urban bias in their construction. Studies using these have been interpreted in misleading ways, and have concealed the existence of large numbers of disadvantaged households in rural areas. Moreover the derivation of such area indicators tends to obscure the processes underlying disadvantage and to deflect research from exploration of such processes." (Shucksmith et al., 1996).

This brief paper considers the extent to which the Scottish Index of Multiple Deprivation captures disadvantage and deprivation in rural areas, drawing on recent research by the Scottish Centre for Research on Social Justice.

2. The Scottish Index of Multiple Deprivation

The SIMD was commissioned by the Scottish Executive and published in 2003 (Noble et al: 2003). It is the official measure of area deprivation for wards in Scotland. Unlike previous Scottish indices, the SIMD2003 drew largely on non-Census data, allowing for regular updating. It is also based on more direct measures of the causes and consequences of deprivation than previous indices, particularly those reliant on Census data. As such, it represents a considerable advance on previous area deprivation measures (Bailey et al, 2003).

The SIMD2003 is based on Townsend’s model of deprivation, which sees deprivation as multi-dimensional. It covers five domains or aspects of deprivation:

- income;
- employment;
- health;
- education, skills and training; and
- geographical access to services.

The published data give an overall deprivation score for each ward in Scotland and rank them from most to least deprived. Data is also provided on the five domain scores for each ward so the nature or make-up of problems in each area can be examined. The income and employment domains are regarded as the most important contributors to deprivation and each make up 30 per cent of the final index. Health and education are afforded weightings of 15 per cent each, while access (the only domain in which rural wards score more highly than urban) accounts for 10 per cent. In most cases, the data for
the SIMD is taken from 2001 data sets, although in some instances, earlier data is utilized.

An updated index was published in 2004, incorporating measures of housing deprivation and extending the measure of access to services. Subsequent updates (from 2006) will add in measures of other aspects of financial resources, crime and social disorder, physical environment, and social relations and social capital. These changes are unlikely to produce a significant shift in overall rankings as the core elements of the index will be unchanged.

In 2003, the Scottish Centre for Research on Social Justice (SCRSJ) was commissioned by the Scottish Executive Central Statistical Unit to produce a long-term strategy for measuring deprivation in Scotland. Their report (Bailey et al., 2003) suggested a number of ways in which the SIMD might be improved, and many of its recommendations were incorporated in the SIMD2004. The report also discusses urban and rural aspects of the SIMD, and it is worth referring back to its recommendations, not all of which have been implemented. This aspect is developed further in the subsequent SCRSJ study of deprivation in Argyll & Bute (s4 below).

In common with most research on deprivation, including the SIMD2003 (Noble et al, 2003), Bailey et al (2003) take as their starting point the work of Peter Townsend:

“Deprivation takes many different forms in every known society. People can be said to be deprived if they lack the types of diet, clothing, housing, household facilities and fuel and environmental, educational, working and social conditions, activities and facilities which are customary, or at least widely encouraged and approved, in the societies to which they belong.” (Townsend 1987: p.126)

There are four elements to this definition. It is multi-dimensional, goes beyond material aspects, is relative rather than absolute, and focuses on individuals. Nevertheless, Bailey et al see deprivation as a narrower concept than social exclusion, and they interpret it as a lack of goods, services, social relations or inadequate physical or social environment which results from a lack of financial resources. In discussing how to measure deprivation, and what to include in the SIMD, Bailey et al therefore try to keep to these core issues, focusing “on the poor material and social living standards which people face as a result of poverty”.

Because of this tight definition of deprivation, and seeking only to include indicators which can be established as causes of deprivation, Bailey et al (2003) reject the suggestion that economic decline, fragility or out-migration should be included within the index.

“During the consultation process, it was clear that part of the concern from a rural perspective was that the focus on deprivation was seen as inappropriate. It was argued that many of the most remote or fragile rural areas were
suffering problems of economic decline and out-migration. Some people who faced a future of poverty and deprivation if they stayed in these areas had migrated elsewhere in search of employment. The result was that levels of need were not adequately reflected by deprivation measures which focussed on current residents alone. There was a suggestion that deprivation measures should include indicators on out-migration to pick up these problems. While sympathetic to these problems, this change would be inappropriate. Deprivation measures cannot make assumptions about where people might prefer to live or about how their living circumstances might differ if they lived somewhere else.” (p.25)

Bailey et al (2003) accept that "in the past many area-based deprivation indices were biased against rural areas due to the indicators used or due to the focus on area concentrations (Midwinter & Monaghan 1991; Shucksmith 1990; Shucksmith et al. 1994, 1996; Countryside Agency 2003)." However, they argue, "many of these criticisms became redundant with the latest indices as these are based on better data and different methodologies." (p.25)

The greatest weight in the SIMD2004 is given to the income and employment domains, with benefit take-up as a key indicator. There is consistent evidence that take-up rates vary across the country, being systematically lower in rural areas, and, as a result, they are known to provide an urban-biased picture of the distribution of low income households (Bramley et al, 2000). In their report, Bailey et al (2003, 30) acknowledged this weakness and accordingly recommended that the Scottish Executive commission further research to examine spatial variations in take-up rates and to produce correction factors to be applied to take-up rates to ensure that the benefits data provides an unbiased indicator for SIMD.

Similarly, it was recognised that the cost of living is higher in rural areas and Bailey et al recommended (p.32) that the Executive examine the feasibility of building into the SIMD an allowance for this based on national surveys of variations in living costs.

In relation to access to services, Bailey et al (2003, 43) argued that drive or travel time (including time waiting for bus connections or ferry services) should be used rather than simple road distance, and that ultimately a measure of “generalised travel costs” would allow the SIMD to reflect the availability of public transport and financial as well as time costs. Moreover, access to workplaces should be included as well as to services.

The key recommendation emerging from Bailey et al (2003), however, is that the Executive should begin to develop a measure of deprivation at the individual level in addition to the area-based measures. Developing both measures would permit analyses which make comparisons between individual, group and area deprivation, exploring the extent to which different deprived groups are more or less concentrated into particular locations. This would help to address the principal criticism of the application of the SIMD in rural areas.
3. Issues of Scale

There is a general problem with the use of wards to identify areas of concentrated deprivation, and this affects urban and rural areas alike. Therefore, Bailey et al (2003) recommended that the SIMD should be reconfigured around smaller “data zones” of between 500 and 1,000 people, in both rural and urban areas, and this was adopted in the SIMD2004. Nevertheless, this may still be too coarse a scale for rural areas with scattered populations. The recent study of deprivation in Argyll & Bute (Bailey, Spratt et al, 2004) was fortunate in being able to take advantage of newly published data from the 2001 Census, providing information on population characteristics down to very small Census Output Areas (OAs), as set out in the next section. OAs are designed to have a minimum of 50 people and 20 households in order to preserve individual confidentiality.

Bailey et al (2003) rightly emphasise that measuring deprivation at the small area level does not imply that this is the most appropriate scale at which to intervene to try and tackle deprivation – a point also made by Noble et al (2003).

4. The Argyll & Bute Deprivation Study

In 2003-4, a study of deprivation in Argyll & Bute was commissioned by Argyll and Bute Community Planning Partnership (CPP), combining qualitative and quantitative methods with the aim of developing more effective ways of measuring deprivation at the local scale (Bailey, Spratt et al, 2004). As one part of this work, the SIMD data was combined with Census data to provide estimates of deprivation scores for much smaller areas, including Census Output Areas (OAs), Social Inclusion Partnership areas (SIPs), settlements and inhabited islands. This report is particularly relevant to this briefing note and may be accessed on the SCSRJ website www.scrsj.ac.uk/Publications/AnBfull.pdf

The study confirms that a focus on deprived areas alone gives a misleading impression of the distribution of deprivation across the area. Deprived areas, as defined by the SIMD, are concentrated into the larger urban areas but deprived individuals are found scattered across urban and rural areas across the authority. There are some locations which do have significantly higher levels of need than average, such as Dunoon, Rothesay, Campbeltown and Islay. Some smaller settlements and islands also have high concentrations though absolute numbers involved are much smaller. Most interestingly, in this respect, only 14% of Argyll & Bute’s 11,200 income-deprived individuals are located in the SIP area. Crucially, the study found that “wards do not appear to be a useful basis on which to identify areas in need of special interventions such as area-based initiatives as, even in the most deprived ward, only 1-in-4 people is regarded as income deprived”.

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The approach adopted by Bailey, Spratt et al (2004) was to use Census indicators to “model” or estimate SIMD scores for smaller areas. The Census is used to provide small area detail but it is the SIMD which provides the definition of area deprivation. The same approach is also used to estimate levels of individual deprivation. In brief, the process was as follows.

For the first stage, Census data for wards was used to provide the best estimate of SIMD overall rankings and income deprivation rates (already available for wards). For the second stage, the same set of variables was extracted for each OA and combined using the weightings from the two models to give estimates of overall deprivation rankings and income deprivation rates for each area. Data was also extracted for SIP areas, SIP sub-areas, and settlements and used to estimate area and individual deprivation scores in the same way.

At this finer scale, the authors conclude that OAs are much better at identifying deprived individuals than wards. The income deprivation rate for the most deprived groups of OAs is nearly ten times greater than for the least deprived group; for wards, the ratio was just three-to-one. Even so, the majority of deprived individuals do not live in deprived OAs (at least, using the income deprivation measure). Deprived OAs do tend to group together in some locations and these clusters could form a better basis for area-based initiatives than wards. These clusters are found overwhelmingly in the largest settlements, particularly Rothesay, Dunoon and Campbeltown. However, given that so few of the income-deprived individuals live in these areas, the authors raise the question whether there is a continuing role for area-based initiatives and, if so, what the justifications for such an approach would be.

“One justification might be that such initiatives are an efficient means of reaching a significant proportion of the population most in need and providing additional support to them. This argument does not appear to be very strong in the case of Argyll and Bute. Fewer than half the people in the existing SIP areas are income deprived on our estimates and, between them, the five SIPs cover just 14% of all income deprived individuals in the authority. A second justification might be that people living in areas with concentrations of deprivation face additional disadvantages which exacerbate their problems and reduce their opportunities. Such areas may become stigmatised by the wider community, leading to problems for residents in terms of access to employment or to services. The Scottish Executive’s community regeneration statement also emphasises that such areas are more likely to have inadequate public services and to suffer from weak “social capital” or community ties. The reason for intervening through area-based initiatives is then one of social justice; additional resources are used to ensure people in these areas are not disadvantaged by virtue of where they live. The challenge for the CPP would be to specify more clearly the nature of the “area effects” operating in each priority area. From the fairness point of view, it would also be necessary to justify the focus on some areas where deprivation was concentrated and not others.” After all, a substantial number of income-disadvantaged individuals are found scattered in the landward areas. One policy implication drawn is that services or actions to meet needs have to be
accessible across the authority, and that this must be reflected in appropriate resourcing.

5. Key Issues arising

In conclusion, a number of key issues can be highlighted:

• Is the SIMD itself the issue, or is it the role this plays in resource distribution? Should problems of economic decline and fragility be recognised in the allocation of resources in other ways than through being included in the SIMD?
• The SIMD rests on quite a narrow conception of deprivation as a result of poverty.
• Some central rural concerns were addressed in the recommendations of Bailey et al (2003) for future development of the SIMD. These included benefit take-up rates, higher costs of living, generalised travel costs, and the inclusion of an individual as well as an area-based measure. These might be pursued further with Ministers.
• The Argyll & Bute study shows how the SIMD might be applied in rural areas at more appropriate spatial scales, and how this might be combined with other methods. It also confirms that area-based approaches will fail to target most rural deprivation, and calls into question the continuing role of area-based initiatives.

Selected References

Cheltenham: Countryside Agency.
Finance Committee

19th Meeting 2005– Tuesday 13 September 2005

Report on Away Day

Background
1. The Finance Committee held an “away day” on 18 August, in order to discuss its future work programme.

2. This paper summarises the decisions made by Members and seeks formal, public agreement from the whole Committee that these are acceptable.

Committee working practices
3. As a first step, Members discussed a paper that examined working practices which have arisen in the second session. The following decisions were made:

   • Members agreed to consider different ways in which to garner oral evidence, to supplement more traditional methods of evidence-taking. This would include “round table” sessions where members and witnesses would be interspersed to encourage dialogue. The Committee will be using this method of evidence-taking at today’s meeting to set the scene for its inquiry into Deprivation. It was agreed that this approach could be useful in helping members to gain the maximum amount of information on what is a technical and complex subject. It is proposed that the Committee evaluates this session to determine in which circumstances (if at all) it would be useful to use this approach again.

   • Members also agreed that when taking evidence from panels of witnesses, that it can be useful to group together individuals and organisations who have opposing views to stimulate debate. However, in doing this members did feel that having large panels can become somewhat unwieldy and this should be taken into account when discussing representation from invited organisations.

Financial Memoranda
4. In addition to these issues, Members discussed scrutiny of Financial Memoranda and in particular the approach to Bills where level 2 scrutiny (intermediate level with written evidence from organisations finally affected and oral evidence from Executive officials) has been adopted but where written evidence indicates there is little or no disagreement with the Financial Memorandum.

5. Members agreed that in such cases, every effort would be made to identify legislation which may fall into this category and that authority would be delegated to the Convener to cancel oral evidence sessions.
The caveat is that sometimes this may be not be practical, given the tight timescales within which the committee often has to work.

**Future work programme**

6. Members discussed the Committee’s short and medium term work programme. The Committee has already agreed an approach to the following work:

- **Budget Process 2006-07**
  
an approach was agreed on 14 June 2005. This includes one external meeting to be held in Elgin on 7 November 2005.

- **Cross-cutting expenditure review of Deprivation**
  
An approach to this review was also agreed on 14 June 2005. This involves undertaking case study visits to supplement more formal evidence. The Committee has already commissioned research and this is being presented to the Committee today.

- **Reporter’s Inquiry into Transport Spending**
  
The Convener is acting as reporter on this and is likely to bring forward an initial report towards the end of September. The Committee will consider at that time, whether it wishes to undertake further work in this area.

- **Efficient Government**
  
The Committee will continue to monitor the Executive’s initiative. Members also considered correspondence which had been received during the summer recess and this correspondence is attached.

7. Members agreed that they would incorporate the following items in addition to the work already in the programme, or likely to come before the Committee in relation to scrutiny of Financial Memoranda or the Scottish Executive’s budget:

- To consider the financial implications of the Council Tax Abolition and Service Tax Introduction (Scotland) Bill. The Committee had already agreed to consider two other members bills – the St Andrews Day Bank Holiday (Scotland) Bill and the Abolition of NHS Prescription Charges (Scotland) Bill.

- To take evidence on performance management, in light of the evidence given to the Committee by Sir Michael Barber of the Prime Minister’s Delivery Unit, from John Elvidge, Permanent Secretary to the Scottish Executive. In addition, members signalled they wished to take evidence from the Permanent Secretary on the allocation of resources in Spending Review 2004.

- To write to the SPCB with regard to financial and policy controls over the various Parliamentary commissioners;

- To consider the following issues for potential inquiries in 2006: the Housing Stock Transfer; Local Government Single Status Agreements and related issues; and Health spending. It was agreed that scoping
papers would be produced towards the end of the year and that discussions would need to take place with the appropriate subject Committee conveners before any inquiries are undertaken.

8. **Members are asked to agree the working practices and work items set out in this paper.**

Susan Duffy
Clerk to the Committee
During the session on Efficient Government at the meeting of the Finance Committee on 10 May 2005, I promised to write to clarify the position on some issues and to provide additional evidence on particular questions.

Firstly, I promised to clarify why the technical note for FPSR-LG/C2 states that savings on Fire GAE have not been built into the budget, but the technical note for FPSR-LG/C3 states that savings on Police GAE have been. The saving was not built into Fire GAE because no final decisions have been made on whether to proceed with the rationalisation.

The potential saving was quantified in a report produced by consultants. The report was issued for public consultation in July 2004. Following concerns raised by a number of respondents, the Deputy Minister for Justice announced to Parliament on 18 November 2004 that the Executive would carry out further work and undertake further consultation with stakeholders, before reporting the conclusions to Parliament.

You also raised concerns about answers to your previous questions on concessionary fares (Technical note No T/C2). As we explained at an earlier stage, it is too early to provide meaningful estimates of the savings which might be achieved against each of the individual elements identified. However, I confirm that we are planning that the introduction of a single national Scotland-wide scheme in place of the sixteen local schemes will deliver savings of the order of £5 million a year in 2006-07 and 2007-08 through improved national administration, the consolidation of operator capacity costs in the scheme reimbursement rate, savings in GAE expenditure and reductions in irregularity and fraud by use of Smartcard technology.

In your summing up, you listed a number of items you believed the Committee would need for proper scrutiny:
1) A clear summary of savings made in each budget
2) A clear identification of appropriate budgets for comparison with savings
3) A clear summary of growth in service provision facilitated by the Efficient Government savings
4) A clear explanation of how procurement savings will be monitored
5) A summary of posts lost from the exercises (as opposed to concepts such as “natural wastage”)

I am as keen as the Finance Committee are that we develop monitoring systems which are robust and stand up to scrutiny. However, the appropriate measurements and the level at which we monitor the service will vary from service to service. This does not mean that our figures are not robust; it does not mean that we cannot clearly identify savings, it does mean that there is no “one size fits all” approach, and that instead of developing a whole new bureaucracy we should use existing monitoring and measuring mechanisms, as the Improvement Service plan to do on our behalf to monitor delivery of efficient government savings from local authorities. Indeed, as an example, I am aware that the Scottish Prison Service monitors the average annual cost of each prisoner place. Latest results show that Scotland’s performance is positive both when compared with performance in England and Wales, and with performance in Scotland in previous years. In my opinion, monitoring the costs of services through this sort of approach is often more meaningful than by simply showing the savings on budget line – though of course I accept that that is necessary too.

1) A high-level summary of savings planned in each budget is attached at Annex B. You will appreciate that the outturn figures are not yet available: indeed the outturn for 2004-05 will not be available until December this year. I appreciate that this high-level summary may not be exactly what you were looking for but if that is the case some clarification on what the Finance Committee means by “budget” (ie to which level you wish us to report) would be helpful.

2) While you have requested that we provide a clear identification of the appropriate budgets - presumably meaning provision of appropriate lower level account codes/cost centres, there are problems with this approach. For example, for the 1% NHS Efficiency Note, if we were to find and list all relevant account codes from each of the 23 bodies concerned in that note, we would have to list hundreds of lines. I am sure that you will agree that this would NOT be an effective means of communicating financial outturn. If we were to look at the account line for the Scottish Executive Health Department (SEHD) in the Scottish Executive Accounting System (SEAS) it would be too summarised. We are dependent therefore on SEHD developing a suitable framework at the interface with NHS bodies, which they are currently doing. There are similar problems with other portfolios. This is an area where we would wish organisations to develop their management accounting in order for them to monitor the efficiency savings themselves. I suspect that the most meaningful level of collection of data will vary from project to project.

3) It will not always be possible to say specifically where a particular saving has been redirected to. With 20+% extra cash over the 3 years to 2007-08, and an efficiency target to recycle 3% it is not realistic to expect full hypothecation of efficiency savings to particular new expenditures. Many bodies, when drawing up budgets, will have a mix of new money, efficiency gains and reprioritisation savings, and these will effectively form a single pot from which to finance new expenditure, be it growth in costs or expansion of services. However, it should be possible to give illustrations of the benefits, as well as some hard examples. My officials are considering how best this might be done.
4) **Annex A** provides some more detail on the methodologies we propose to use to measure the savings achieved through the eProcurement Scotland programme. These are currently being piloted with North Ayrshire Council.

5) It won't be possible to provide this until such time as the changes happen – for example if an organisation predicts that it will require 20 less staff in a particular area in 2007-08, we will not know until that time how many people are redeployed, or made redundant, since this will be dependent on how many people have moved, left or retired in the interim. However, we will keep the Committee informed.

Best wishes

TOM MCCABE
1. OPPORTUNITIES TO IMPROVE PROCUREMENT:

- **Why we need to measure:**

  The electronic tools that form part of the ePS all act as enablers for improving the procurement process. It is important to track what opportunities to improve the procurement are taking place for example:

  - Improved collaboration both internally amongst departments/services and externally with other public sector bodies.
  - Improved scope and specifications of contracts
  - Improved processes – eAuction, e Tender
  - Improved supplier management

  Improvements to the goods and services bought through better strategic buying will also reduce the numbers of non procurement staff sourcing goods and services for their own local needs and allow them to focus on service delivery.

- **What we need to measure:**

  - Resources saved from collaboration and use of collaborative contracts.
  - Price reductions achieved as a result of aggregation of demand
  - Cost reductions though use of an eTender
  - Price reductions achieved as a result of an eAuction – this should include details of % reduction achieved and the overall saving made against both the existing contract price and any identified current market benchmark price.

- **How to measure:**

  Reports from ePS and finance system (creditors and spend analysis) can provide details on number of suppliers paid for each commodity, and cost of commodities; procurement/contracts officers can provide details of existing contracts and new corporate contracts. The process for procurement staff and non procurement setting up arrangements with a supplier to buy goods and services will require to be mapped and a time study completed.

  Calendar of tendering / auction opportunities should be produced by the ePS programme team which customers can take advantage of. Once customers have decided what tenders / auctions they will participate in they should list these and complete the details required above.

- **Outcome of measurement:**

  - Track tendering exercises and opportunities for collaboration with other ePS customers.
  - Monitor the savings achieved due to eAuctions and/or collaborative buying power.
  - Monitor the resource savings from increased use of collaborative/framework contracts
  - Simplify tendering process for both buyers and suppliers and monitor savings achieved as a result.
  - Monitor uptake of eTendering and eAuctions throughout the supplier community.

- **Frequency of measure:**

  As and when a tender exercise takes place

2. BUSINESS PROCESS RE-ENGINEERING:

- **Why we need to measure:**
Change management is an integral part of implementing ePS and many customers will need to undertake some form of Business Process Re-engineering (BPR). BPR work will be an ongoing requirement that can achieve major process efficiencies and savings in the P2P process.

Both internal and external processes should be evaluated and where possible streamlined and simplified. Even taking out a couple of steps in the P2P process can yield significant savings in terms of time and cost.

- What we need to measure:
  - Reduction in staff time and overall costs.
  - Streamlined and more efficient automated process as against the existing manual process – including sourcing / requisitioning / approving / transmitting / receipting / invoicing / paying.
- How to measure:
  This will involve timing a selection of users going through the manual process and then timing them again going through the automated process and indicating where time and costs have been saved.
- Outcome of measure:
  A fully costed P2P process showing savings made and efficiencies gained.
- Frequency:
  As and when a new supplier is adopted and for each new phase of implementation.

3. INTEGRATION WITH FINANCE SYSTEMS:

- Why we need to measure:
  Integration with finance systems can yield significant benefits in streamlining the payment process.
- What we need to measure:
  - Process efficiencies
  - Prompt payment
  - Invoice accuracy
  - Adherence to contractual terms
- How to measure:
  Reports from Pecos and finance system can provide details on number of invoices received; matches/mismatches; payment performance.
- Outcome of measure:
  Improved payment process.
- Frequency:
  This will be a one-off exercise.

4 REDUCTION IN OFF-CONTRACT SPEND

- Why we need to measure:
  Reduction in use of non contracted suppliers will lead to cash savings for the organisation. Increasing volume through existing contracted suppliers will ensure compliance with EU
Procurement rules and may lead to further savings as well as leading to a more robust bargaining position when negotiating new contracts.

- **What we need to measure:**
  - Cost of commodity provision
  - Number of suppliers in commodity provision
  - Volume of orders through suppliers
  - One off savings offered by suppliers for increasing volume of orders

- **How to measure:**
  Reports from ePS and finance system (creditors and spend analysis) can provide details on number of suppliers paid for each commodity, volumes of invoices processed (or orders raised) and cost of commodities; procurement/contracts officers can provide details on any additional savings offered for increased volume.

- **Outcome of measure:**
  - Financial savings.
  - Increased communication/awareness of corporate contracts

- **Frequency:**
  This should be measured quarterly.

5 **IMMEDIATE ACCESS TO ADOPTED SUPPLIERS**

- **Why we need to measure:**
  The ePS programme believes that their model for supplier adoption saves resources for customer organisations and suppliers as suppliers only need to be adopted once. It is important to measure whether this is true.

- **What we need to measure:**
  - Cost of adopting a supplier for the first time (customer and supplier costs)
  - Cost of adopting a previously adopted supplier

- **How to measure:**
  Measure the length of time and the resources used to adopt a supplier across the various types of connection options for
  a) new supplier
  b) previously adopted supplier
  Questionnaire to supplier to measure same

- **Outcome of measure:**
  Factual evidence to support programme. Opportunities identified to improve process of supplier adoption.

- **Frequency:**
  This should be measured once for each type of connection option and again if improvements are made to the process.

6 **IMPLEMENTATION OF BEST PRACTICE**

- **Why we need to measure:**
It is important to record the non tangible benefits that an organisation has received from implementation of ePS. Below is a list of some of the areas of improvement that customers have noticed. The list is by no means comprehensive and customers are urged to record any additional benefits as they see fit.

- Segregation of duties
- Greater focus on procurement and potential benefits
- Order approval
- Completion of Goods Received Note
- Full audit trail
- Management information
- Automatic matching of orders/receipts/invoices
- Improved staff IT skills

**Frequency:**

This should be measured quarterly.

7. **PROGRESSING eCommerce THROUGH SUPPLIER ADOPTION**

- **Why we need to measure:** Suppliers save resources from their back office processes through improving their ePS catalogue content and transmission methods. It is important to monitor how ePS is influencing suppliers to move forward with eProcurement. It is also important to know how many of our suppliers are Small to Medium Enterprises (SME) as they form a large part of the public sector supply base and ought to see benefits from participation in eProcurement.

- **What we need to measure:**
  - Supplier content and transmission methods
  - Category of supplier:
    - National
    - local
    - large
    - SME
    - micro

- **How to measure:**

  For each supplier adopted onto ePS, document the information noted above. Update for every change.

- **Outcome of measure:**

  Awareness of suppliers "e" capability, size and whether a "local" business

- **Frequency:**

  This should be measured as a baseline for all suppliers and reviewed every six months

8. **ONE OFF REDUCTION IN SUPPLIER PRICES THROUGH INTRODUCTION OF ePS**

- **Why we need to measure:**

  Some suppliers have offered a one off saving to customers for transacting with them through ePS.

- **What we need to measure:**
  - Cost reduction offered (eg % off contract price)
  - Financial saving anticipated
- Financial benefit actually achieved over fixed periods – eg quarterly or financial year.

- **How to measure:**

  Calculate anticipated saving as the difference in contract price multiplied by anticipated demand.
  Calculate actual saving as the difference in contract price multiplied by the actual demand.

- **Outcome of measure:**

  Financial savings.

- **Frequency:**

  - At the date of contract award or the date on which the proposed change in price takes effect
  - At the end of an agreed period – eg quarterly or per financial year.
## COMBINED DEL BY PORTFOLIO AND EFFICIENT GOVERNMENT SAVINGS (INCLUDES 2004-05 baseline)

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>2004-05 Baseline £m</th>
<th>2005-06 Plans £m</th>
<th>£m Saving in 05/06</th>
<th>% Saving in 05/06 against 04/05 Baseline</th>
<th>2006-07 Plans £m</th>
<th>£m Saving in 06/07</th>
<th>% Saving in 06/07 against 05/06</th>
<th>2007-08 Plans £m</th>
<th>£m Saving in 07/08</th>
<th>% Saving in 07/08 against 06/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>859.665</td>
<td>965.496</td>
<td>71</td>
<td>0.83%</td>
<td>1053.126</td>
<td>22.6</td>
<td>2.0%</td>
<td>1741.54</td>
<td>1078.34</td>
<td>6.1%</td>
</tr>
<tr>
<td>Crown Office and Procurator Fiscal Service</td>
<td>89.151</td>
<td>93.497</td>
<td>2.8</td>
<td>3.14%</td>
<td>100</td>
<td>2.8</td>
<td>2.8%</td>
<td>104.5</td>
<td>2.8</td>
<td>2.3%</td>
</tr>
<tr>
<td>Education and Young People</td>
<td>427.317</td>
<td>343.128</td>
<td>83.11</td>
<td>0.08%</td>
<td>602.578</td>
<td>7.06</td>
<td>1.1%</td>
<td>670.078</td>
<td>11.0</td>
<td>1.6%</td>
</tr>
<tr>
<td>Tourism, Culture and Sport</td>
<td>222.875</td>
<td>267.901</td>
<td>0</td>
<td>0.00%</td>
<td>291.091</td>
<td>1.8</td>
<td>0.6%</td>
<td>292.091</td>
<td>1.0</td>
<td>0.3%</td>
</tr>
<tr>
<td>Health and Community Care</td>
<td>8.047.08</td>
<td>8.790.04</td>
<td>166</td>
<td>2.06%</td>
<td>9.523.02</td>
<td>15.4</td>
<td>1.6%</td>
<td>10.271.54</td>
<td>16.9</td>
<td>1.6%</td>
</tr>
<tr>
<td>Enterprise and Lifelong Learning</td>
<td>2,631.05</td>
<td>2,631.08</td>
<td>5.3</td>
<td>0.22%</td>
<td>2,792.08</td>
<td>5.5</td>
<td>0.2%</td>
<td>2,893.68</td>
<td>3.5</td>
<td>0.1%</td>
</tr>
<tr>
<td>Communities</td>
<td>428.006</td>
<td>407.366</td>
<td>0</td>
<td>0.00%</td>
<td>424.504</td>
<td>120</td>
<td>0.0%</td>
<td>906.54</td>
<td>0.0</td>
<td>1.0%</td>
</tr>
<tr>
<td>Transport</td>
<td>934.941</td>
<td>1,057.97</td>
<td>122</td>
<td>2.72%</td>
<td>1,124.91</td>
<td>12.2</td>
<td>1.1%</td>
<td>1,179.81</td>
<td>15.3</td>
<td>1.3%</td>
</tr>
<tr>
<td>Environment and Rural Development</td>
<td>738.216</td>
<td>837.023</td>
<td>155</td>
<td>0.19%</td>
<td>903.269</td>
<td>3.5</td>
<td>0.4%</td>
<td>940.769</td>
<td>5</td>
<td>0.6%</td>
</tr>
<tr>
<td>Finance and Public Services</td>
<td>6,250.80</td>
<td>4,455.81</td>
<td>80.175</td>
<td>1.37%</td>
<td>6,722.63</td>
<td>6.57</td>
<td>1.0%</td>
<td>6,955.60</td>
<td>2.1</td>
<td>0.3%</td>
</tr>
<tr>
<td>Other non NHS procurement</td>
<td>80</td>
<td>100</td>
<td>20</td>
<td>0.00%</td>
<td>100</td>
<td>0</td>
<td>0.0%</td>
<td>100</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Administration</td>
<td>760.585</td>
<td>760.091</td>
<td>1.5</td>
<td>0.06%</td>
<td>266.196</td>
<td>7.4</td>
<td>2.8%</td>
<td>263.769</td>
<td>2.4</td>
<td>0.9%</td>
</tr>
<tr>
<td>DEL Total</td>
<td>21148.593</td>
<td>21748.722</td>
<td>313.138</td>
<td>1.56%</td>
<td>24477.893</td>
<td>49.1</td>
<td>2.0%</td>
<td>25,805.14</td>
<td>446.435</td>
<td>1.7%</td>
</tr>
<tr>
<td>Scottish Water (non DEL)</td>
<td>152</td>
<td>187</td>
<td>35</td>
<td>23.10%</td>
<td>202</td>
<td>55</td>
<td>27.0%</td>
<td>292</td>
<td>42</td>
<td>14.3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>21,376.39</td>
<td>22,946.52</td>
<td>466.14</td>
<td>1.00%</td>
<td>24,668.89</td>
<td>583.261</td>
<td>2.3%</td>
<td>26,002.04</td>
<td>744.435</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

[1] The information in this table is taken from Table 0.03 Departmental Expenditure (DEL) by portfolio in the Scottish Executive Draft Budget for 2005-06 and the table in paragraph 13 of the BABS - Efficient Government Plan.

[2] The information relating to the Food Standards Agency, the Capital Modernisation Fund, the Scottish Parliament and Audit Scotland and the Contingency Fund has not been incorporated into this table which covers Ministers portfolio only. This information is shown in the table below.

## OTHER DEL INFO NOT IN ABOVE TABLE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Standards Agency</td>
<td>9.6</td>
<td>9.771</td>
<td>10.271</td>
<td>10.771</td>
</tr>
<tr>
<td>Capital Modernisation Fund</td>
<td>50</td>
<td>60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Scottish Parliament and Audit Scotland</td>
<td>118.432</td>
<td>103.863</td>
<td>105.537</td>
<td>107.329</td>
</tr>
<tr>
<td>Contingency Fund</td>
<td>58.37</td>
<td>10</td>
<td>15</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>236.392</td>
<td>183.434</td>
<td>130.408</td>
<td>159.1</td>
</tr>
</tbody>
</table>
Dear Des,

Thank you for your letter of 8 July 2005 following the Finance Committee's discussion of Efficient Government at its meeting on 28 June 2005. I welcome your stated desire to work constructively with the Executive on what I agree is a very important initiative.

You should by now have received my letter of 19 July which set out my response to issues raised during the Finance Committee meeting on 10 May 2005. This letter also contained an annex setting out a high-level summary of the savings planned in each budget, and including details of the 2004-05 budget baseline against which those savings are to be made.

We recognise that existing statistical products do not fully capture all the aspects of public sector productivity, including the relationship between inputs and outputs. Our long-term and ambitious programme of work to deliver on the Atkinson Review in Scotland, which can be accessed from the Scottish Executive's website via the following link http://www.scotland.gov.uk/Publications/2005/06/27134246/42491, will go some way to addressing this deficit. Implementation of our Atkinson Review strategy will not deliver a complete tool kit for the management and audit of government activities, but it will help to establish the wider economic context for the interpretation of other performance indicators. Better data on output and productivity that follow will be comprehensive in their coverage and consistent over time, and will complement existing measures of public sector performance.

As your letter states, the savings that were built into the budget baselines were indeed realigned within portfolios. In addition to these savings, Portfolios were given increases to their budgets from Spending Review 2004. Savings and new money were equally taken into account in allocating resources within portfolios, and are not separable. Together, this money will fund the Portfolios' objectives and targets as published in Building a Better Scotland: Spending Proposals 2005-08: Enterprise, Opportunity and Fairness. More detail of the spending plans were published in The Draft Budget 2005-06. Project managers have already been asked, wherever possible, to provide details of the reallocation of savings in the efficiency technical notes. We are working with project
managers to try and refine the collection of this information. But it will not always be possible to say whether some service enhancement was financed by an efficiency saving rather than new money.

You also queried whether or not all the technical notes for time release savings had been sent to Audit Scotland. I can confirm that all the current notes which have been cleared have been sent to Audit Scotland, and they are currently considering their response. I expect to be in a position to issue the revised technical notes before Parliament resumes. I should point out, however, that the fact that the technical note for each project has not been made public does not mean that work on the project itself has not started, and indeed, in relation to time-release savings, we are not obliged to deliver any savings before 2007-08.

I will of course be happy to give evidence to the Finance Committee once the Committee has had time to consider the revised technical notes. As before, I will ensure that my officials send you hard copies of the Efficiency Technical Notes as soon as they are ready.

Finally, I note that you have offered to meet with me and my officials to discuss the issues around our Efficient Government agenda further. I would be very pleased to accept this offer and would be grateful if you could contact my diary secretary, Shona McCallum, on 0131-244 1509 to make the necessary arrangements.

Best wishes,

TOM MCCABE
Dear Susan

Efficient Government – Information Requirements for Monitoring Savings

Thank you for the opportunity to comment on the information the Committee feels will be required to allow it to verify that savings arising from the Efficient Government Plan have been delivered.

The Convener listed these information requirements on 10 May as follows:

- a clear summary of savings made in each budget;
- a clear identification of appropriate budgets for comparison with savings;
- a clear summary of growth in service provision facilitated by Efficient Government Savings;
- a clear explanation of how procurement savings will be monitored; and
- a summary of posts lost from the exercises.

The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings and £300 million of time-releasing savings by 2007-08. The Executive has put in place a framework of Efficiency Technical Notes which set out where the efficiency savings will emerge and how they will be measured and monitored. The Notes are supported by more detailed delivery management documentation and together they represent the prime information source for monitoring the achievement of savings within the Efficient Government Plan.

Audit Scotland has now commented on the Executive's Efficiency Technical Notes for cash-releasing and time-releasing savings. In both cases we have identified a number of areas where improvement is needed if the Notes, and supporting delivery management documentation, are to provide a sound basis for monitoring the achievement of efficiency savings. We have informed the Executive that the extent to which these changes are made will impact on the degree to which audit can provide full assurance on the achievement of savings. These letters are in the public domain.

In our view the requirements for monitoring efficiency savings follow from a clear understanding of how such savings are defined. Efficiencies are achieved by altering the ratio of inputs to outputs, and emerge in broadly two ways:

- by producing the same outputs with fewer inputs; or
- by producing more or better outputs from the same inputs.
In order for the Executive to monitor the achievement of savings it is important to have clear information for measuring the baseline ratio of inputs to outputs, and how this ratio changes over the lifetime of any initiative, at each stage of the project. The 'Process Map' outlined below sets out the key stages for effective project management of the efficiency measurement process and the requirement to measure inputs, outputs and outcomes at each stage of the project.

**Efficiency Measurement – Process Map**

The Committee's list of information requirements broadly cover two aspects of project monitoring: the first three information items will provide information on how the ratio of inputs to outputs has changed for initiatives within the Efficient Government Plan; the last two information items will provide information on changes in important 'key themes' within the Efficient Government Plan (i.e. the achievement of savings from reducing staff inputs or through procurement efficiency).

![Efficiency Measurement - Process Map](image-url)
The Committee's list of questions would ensure effective monitoring of the achievement of efficiency savings relevant to a number of stages outlined in the Process Map above. It is important to recognise, however, that the relationships between inputs and outputs in the public sector can be complex; in particular it is often difficult to identify and measure outputs from public goods. In these circumstances the costs associated with the development and maintenance of detailed measurement and monitoring systems can outweigh any associated benefit.

In this context, the Committee may wish to consider its need for additional information in the following areas:

1. Increased clarity regarding how and where some savings will be made and how they will be delivered, particularly for some local government and NHS initiatives.

2. Baseline information for inputs and outputs relevant to each initiative at the start of the Project, in particular, information on actual outturn costs for cash-releasing initiatives.

3. Information about changes in inputs and outputs over the course the Project at key milestones (this requirement is wider than information covering service growth alone).

4. Information about systems to capture baselines, monitor changes in inputs and outputs and to convert changes into monetary measures of efficiency (especially, for time-releasing savings where interactions can be complex and outcomes difficult to measure). Where such systems are not in place, the Committee may wish to clarify how the Executive (or other public sector organisations) intend to evidence the achievement of savings targets.

5. Information on staff changes resulting from the Efficient Government Plan covering, for example the number of staff re-deployed from 'back-office' to 'front-line' activity.

I hope the Committee finds these comments helpful in developing its approach to monitoring the achievement of efficiency savings within the Efficient Government Plan. We are continuing to work with the Executive, through our normal audit processes, as the monitoring and governance arrangements are developed. Please let me know if you would like more information.

Yours sincerely

Caroline Gardner
Deputy Auditor General

cgardner@audit-scotland.gov.uk