FINANCE COMMITTEE

AGENDA

19th Meeting, 2002 (Session 1)

Tuesday 8th October 2002

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

1. Scottish Parliamentary Corporate Body Budget Submission for 2003/04: The Committee will consider the Scottish Parliamentary Corporate Body’s expenditure plan for 2003/04 and take evidence from—

   Paul Grice, Clerk and Chief Executive, Scottish Parliament;
   Robert Brown MSP, Member, Scottish Parliamentary Corporate Body;
   Derek Croll, Head of Corporate Services, Scottish Parliament;
   Sarah Davidson, Project Director, Holyrood Project Team.


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   Sarah Davidson, Project Director, Holyrood Project Team.

3. Outcome Budgeting: The Committee will consider a paper summarising the results of a consultation exercise on commissioned external research entitled “Moving to Outcome Budgeting”.

4. 2003-04 Budget Process: The Committee will consider the Scottish Executive’s response to its Stage 1 budget report.

5. Financial Scrutiny Review: The Committee will consider a paper from its adviser on block allocations.
6. **Items in Private:** The Committee will decide whether to consider lines of questioning on the Financial Memorandum for the Mental Health (Scotland) Bill in private at its next meeting.

David McGill
Clerk to the Committee

The papers for this meeting are:

**Agenda item 1**
SPCB budget submission for 2003/04  
FI/02/19/1

**Agenda item 2**
SPCB quarterly report on the Scottish Parliament building project  
FI/02/19/2

**Agenda item 3**
Paper from the Clerk  
FI/02/19/3

**Agenda item 4**
Scottish Executive Stage 1 response  
FI/02/19/4  
(to follow)

**Agenda item 5**
Paper from the adviser  
FI/02/19/5
Des McNulty, MSP
Convenor of the Finance Committee
The Scottish Parliament

October 2002

SPCB BUDGET SUBMISSION FOR 2003-04

I wrote to you on 9th March with a provisional expenditure plan for the SPCB’s proposed spending in 2003-04. Under the terms of the agreement between the SPCB and the Committee, we are required to provide you, and the Scottish Executive, with more detailed plans. I am pleased to submit the SPCB budget bid for the financial year 2003-04. The budget bid is at Level 2 detail.

The SPCB has identified a budget requirement of £161.9m for 2003-04, as shown on the attached schedule. I have also set out our indicative estimates for the 2004-05 and 2005-06 financial years, which show our anticipated expenditure once the Holyrood Project is complete.

Revenue Expenditure

The revenue expenditure for 2003-04 has increased to £55.8m as a result of additional cost pressures, mainly in relation to the migration to Holyrood and the double running costs of two Parliamentary complexes. However, these additional costs will be met from the existing EYF carried forward from 2001-02. The SPCB is therefore not seeking any additional revenue funding in 2003-04.

As agreed with the Finance Committee in March, I am pleased to attach an analysis of our forecast migration and double running costs, together with a briefing note.

Capital Expenditure

The latest forecast for the Holyrood Project, indicates a total project cost of £294.6m (net of recoverable VAT). This is an increase of £28.2m as compared to the £266.4m identified in the provisional expenditure plan submitted to the Finance Committee in March. As detailed in the attached Quarterly Report on the Holyrood Project, this is attributable to a number of pressures including significant costs associated with the ongoing resolution of bomb blast requirements which have become more demanding since September 11 2001. Meeting these requirements has led to considerable delay in some areas and we are at a stage in the Project where delays themselves cost a lot of money, over and above the material cost of reinforcing the structure.

The increased project costs take effect in the current financial year and in 2003-04. The capital expenditure budget for the Holyrood Project in 2003-04 is now forecast at £77.2m.
The above figures do not include landscaping costs as we report these separately on the attached schedule. The budget for landscaping, of £8.1m over three years, was transferred from the Scottish Executive to the SPCB in January 2002 and forecast expenditure remains unchanged from that budget transfer.

The SPCB is therefore seeking £28.2m additional funding for the Holyrood Project, as compared to the provisional expenditure plan submitted to the Finance Committee in March. We forecast £18.9m of this capital expenditure will be required in 2003-04, with the remaining £9.3m required in the current financial year. We have discussed the funding of the current year requirements with the Scottish Executive and will report on this to the Finance Committee later in the year as part of the budget revision process.

This change increases the capital charges estimate by £0.3m to £23.9m. The £0.3m will require additional funding in 2003-04.

David Steel
## SCOTTISH PARLIAMENTARY CORPORATE BODY

### SPCB aim:
To provide the Parliament, or ensure the Parliament is provided with the property, staff and services required for the Parliament's purposes.

### OPERATING BUDGET SHOWING RESOURCES ALLOCATED TO OBJECTIVES:
Scottish Parliamentary Corporate Body

**Objective:** To enable the efficient and effective conduct of parliamentary business.

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## SPCB Revenue Expenditure For 2002-03 to 2004-05

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<td>(250)</td>
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<td>Total capital expenditure</td>
<td>0</td>
<td>135,378</td>
<td>135,378</td>
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Revenue expenditure is forecast to increase from £49.8m in 2002-03 to £55.8m in 2003-04, an increase of £6.0m (12%). Much of this is explained by the one-off migration and double running costs associated with the move to Holyrood. These costs are identified separately in Schedule 2 of our submission to highlight the exceptional costs of this migration and to provide a clearer picture of the underlying recurring revenue expenditure pattern of the Parliament.

Migration Costs
Substantial one-off migration costs are incurred in both the 2002-03 and 2003-04 financial years (£2.7m and £3.3m respectively). The principal items are:

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<td>Additional staff and contractors</td>
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<td>£0.9m</td>
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<td>General Migration Contingency</td>
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<td><strong>Total Migration Costs</strong></td>
<td><strong>£2.7m</strong></td>
<td><strong>£3.3m</strong></td>
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Double Running Costs
Double running costs of £1.7m in 2003-04 are the costs of keeping on the interim accommodation between July and December 2003 to allow migration from and decommissioning of the interim buildings. The leases for the interim accommodation also provide contingency cover against any delays in the planned migration programme.

Recurring Costs
Excluding the above migration and double running costs, the underlying revenue expenditure of the Parliament is forecast to increase from £47.1m in 2002-03 to £50.9m in 2003-04, an increase of £3.8m (8.1%). The major components of this are:

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Background

1. The motion approved by Parliament on 21 June 2001 required the SPCB to provide information, "on a quarterly basis to the Parliament's Finance Committee on the progress of the project in respect of inflation and materialisation of risk, in order to inform the committee's consideration of the annual Budget Bill". This paper constitutes the fourth such report. This update was postponed for the reasons set out in the PO's letter of 20 June 2002 to the Convener of the Committee, (copy attached as an Annex). This report is based on the Design and Construction Team's most recent Risk Review, Review P and reflects the overall financial position as of 4 September 2002.

2. Under his delegated responsibility for the project, the Chief Executive reports on a monthly basis to the SPCB on issues relating to programme, budget and quality. These reports are supplemented by regular discussions between the Holyrood Progress Group (HPG) and the Corporate Body.

Inflation

3. Inflation is recast on a six-monthly basis and was updated in April 2002 using the BCIS indices. The current total attributable to inflation in the cost plan is £18.1m. Using the current predictions, inflation would add £3.3m (net) or £4.4m (gross) to the cost plan value of the packages remaining to be let.

4. For the purposes of this report we have presented the figures remaining in the risk register in real terms, i.e. gross of inflation; predicted inflation on these risk sums is therefore not included in the above estimate of inflation.

Risk

5. A further review of project risks was concluded in May. The stated objectives of this review were to assess the funding needs to complete the project and to review costs to date. In terms of the latter, the Presiding Officer’s letter of 20 June provided details of where risk had materialised since the previous report to the Committee. In addition to this, the overall impact of the review as presented to the Project Team is an increase in the risk register total of £21.4m. This gives a total of £36.1m design and construction risk in real terms, net of fees and VAT. The gross figure is £47.0m.

6. For obvious commercial reasons, we are not in a position to disclose to the Committee the detailed breakdown of these risk sums. However, we have been advised that at least 85% of the cost is attributable to the impact of delays; re-sequencing of works and prolongation across a variety of works packages.
7. According to our cost consultants, it emerged from the review that three factors have had the most significant impact on the project programme, (and hence costs), since the February exercise. These are: the ongoing resolution of bomb blast requirements; procurement of the Specialist Glazing package and preparation of the fit-out works for tender.

8. **Resolution of blast issues** to the required standard has continued to hamper progress. There has been extensive re-engineering of the façade construction and other elements over this period in response to ever-changing and increasingly stringent stipulations, particularly since September of last year. This has been particularly acute in finalising window construction design where delays in installation inevitably lead to related costs and problems associated with temporary weather proofing and environmental controls. It is very difficult to pinpoint the cost of this to the project, although one estimate has put it in the region of £20-30m. A calculation which was able to quantify the effect of the cost of time delays could be considerably in excess of this figure. Nonetheless, we can say with some certainty that the continued process of finalising these construction designs has resulted in costs higher than those forecast at the last review.

9. **Procurement of the Specialist Glazing package** has dominated proceedings in recent months. This work is critical to the completion of the East of the site and it was essential to move forward with a contractor capable of delivering to the highly complex design and construction requirements. After prolonged, frustrating and eventually abortive negotiations, a contractor was finally awarded the work, but after a three month loss in programme terms. This time loss has serious implications for all other packages that have either a physical or an organisational interface with the Specialist Glazing. This is particularly true for the fit-out packages. There is also a resource issue for the design team; the architects would have expected to have pulled their team off this package by now but are instead looking at keeping the team in place until September which has a knock-on impact on other areas of work.

10. Nonetheless, technical workshops have been proceeding on this package over the summer months and good progress is reported. The contractor is not obliged to provide final cost and programme details until after the date of writing. However, the Construction Manager has reported that he is, “reasonably confident”, that the emerging Mero programme will allow the current target programme to be achieved and that major issues in terms of cost are unlikely to emerge.

11. **Internal fit-out works** are being let in three substantial, ‘zoned’ packages. This report reflects the pre-tender estimate for these works which was endorsed by the team at Risk Review P. Since then, tenders have been received on all three packages. At present, it appears that the total combined tender may be up to several million pounds below the pre-tender estimate. However, that will be for the team to review as part of the next risk assessment exercise.

12. Nonetheless, there has been a substantial increase in the cost of these works as against the original cost plan. This is partly attributable to the amount of design
detail required for the tender documents and the time required by the team to analyse, cost and complete the designs far exceeding expectations. It is also likely that the scope of the packages and the design complexity of the Chamber and Committee Rooms ceilings in particular may be limiting contractor interest and pushing up prices accordingly. What is clear is that there is no more scope for significant savings to be made in this package and that there is no real alternative to proceeding now with the design as planned.

13. Achieving programme remains a key objective. In November 2001 we reported that a revised programme (Programme 5) had been developed in order to absorb significant design delays. At that time it was agreed by the SPCB that completion of construction to programme was the key objective. It was understood that there would be costs associated with the revised, tightened programme, roughly £10-15m of which would be the unavoidable costs of prolongation and the necessary extension of contracts. Sums of money in this category have certainly already been paid to contractors who have been delayed or forestalled.

14. A further £5m was allocated against the cost of specific, late stage acceleration measures such as double-shift working, environmental controls etc. On the basis of Programme 5, we reported to the Committee in December 2001 that these acceleration measures might require to be adopted in late 2002/early 2003 in order to meet the target completion date but that decisions about these would not require to be taken until a later date.

15. Since that November report there have been a number of major developments which have impacted on programme, as well as a host of minor difficulties. The lengthy delay in securing the specialist glazing contract; the extent of problems in meeting blast resistance requirements and the impact of this on the window designs in particular; the knock-on impact of the Flour City insolvency and the work involved in preparing the tender documentation for the significant fit-out works led to the development of Programme 6 which re-sequenced works yet again to achieve the overall objective of meeting the target programme.

16. In order to deliver, this programme will almost certainly require the use of some temporary weather-proofing and heating of the building as well as other measures in order to allow works to be completed out of sequence.

17. At the time of introducing Programme 5, it was hoped that such measures might not require to be taken or else that they would be optional. However, the pressure on the programme which has occurred since that time means that there is no financial advantage to us in not accelerating works where necessary. Our cost consultant has advised that the difference between the costs of extending time on site and those of acceleration is negligible. Properly managed, the point is unlikely to arrive where acceleration measures could be deemed a waste of money; having said this, acceleration might at some point begin to impact on quality and this must be closely monitored.
18. In our view, and that of our professional consultants, the most sensible course of action at this point is to press ahead vigorously towards completion, taking whatever measures are necessary to achieve that.

19. The figure of £5m identified previously equates broadly to a £10m ‘cost of completion’ figure in Risk P.

**Overall cost position**

20. £1.1m of works packages remain to be tendered.

<table>
<thead>
<tr>
<th>Construction project: current status of works packages, fees etc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site, demolition and archaeology</td>
</tr>
<tr>
<td>Fit out</td>
</tr>
<tr>
<td>Fees and site organisation</td>
</tr>
<tr>
<td>Total construction commitment to date (incl. inflation)</td>
</tr>
<tr>
<td>VAT on construction commitment</td>
</tr>
<tr>
<td>Subtotal (committed to date)</td>
</tr>
<tr>
<td>Cost plan value of packages still to be let (at 1998 prices)</td>
</tr>
<tr>
<td>Fees on Packages to be Let</td>
</tr>
<tr>
<td>VAT on Packages to be let (as above)</td>
</tr>
<tr>
<td>Subtotal (uncommitted)</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

**Summary**

21. The following table gives a summary of the figures contained in this report:

| Inflation on packages not yet let | 4.4 |
| Outstanding risk (current prices) | 47.0 |
| Commitment + as yet uncommitted packages (incl. VAT and fees) | 243.2 |
| **TOTAL** | **294.6** |
We last reported to the Finance Committee in March of this year, following the February review of the risk register. A further report is therefore due this month, according to the timetable prescribed by the Parliament last June.

As was set out in the original Parliamentary motion, the purpose of these reports is to assist the Scottish Executive in setting its forward budgets by predicting as accurately as possible the financial demands of a dynamic construction project. As required by last June’s motion, the annex to this report sets out the extent to which risk and inflation have materialised since February.

Over the past year we have also endeavoured to give the Committee an indication of a forward assessment of risk, while explaining that this is always highly subjective and can be significantly influenced by a wide range of events. Notwithstanding this, given the purpose of the report we would usually hope to be in a position to confirm that the quantification of the risk it contains is as accurate and detailed a reflection of the current situation as possible.

The background to last month’s risk review was a considerable degree of uncertainty surrounding the remaining two key areas to be finalised in contractual terms: specialist glazing to the Chamber and the fit-out of the Assembly Buildings. I should explain that whilst remaining faithful to the Miralles designs, the engineering of the specialist glazing for the roofs of the foyer and the chamber have proved protracted, partly in light of the increased demands of security. These demands – which we cannot foolishly ignore – have led both to delays and increased costs. Delays, because obviously the internal fit out cannot be completed until the buildings are completely wind and watertight. Costs, because even Queensberry House now has extra blast proofing not originally allowed for.

There is no doubt that uncertainty about these packages is reflected in the outcome of the review. As a result of this, the risk register contains sums of money against the cost of securing and completing these final works, which are only provisional.
We have concluded that it would not be in the Parliament’s interests to release these figures at present; as the number of contracts remaining to be let is now so small, the key fit-out packages, we are therefore reluctant to give any publicity to figures which could be readily identified with on-going contract negotiations and thus become self-fulfilling prophecies.

The position will have become much clearer and less commercially sensitive by September, by which time the specialist glazing contractor should have fully assessed his ability to meet the programme; the three big fit-out packages will have been let and the remaining blast issues will have been fully resolved. We have therefore asked that a further review be carried out at that time and will of course report back to the Committee then, in detail, in line with Stage 2 of the budget process.

As this letter indicates, one or two of the remaining key packages still carry an element of risk. It is therefore worth reiterating here that, subject to clarifying these remaining issues, the Construction Manager has recently reported to the Progress Group that the programme remains on target for the finished Parliament building to be ‘handed over’ to the client in late April 2003. However, the significant work undertaken by the Implementation Unit in recent months has made it clear to us that migration will be a massive logistical exercise for the Parliament as a whole to undertake and that thorough testing of the key systems is essential. In the light of this, we have agreed that, while there will be no change to the target construction completion date, actual migration to the new building should be planned to roll out over the summer recess 2003.

David Steel
A: Materialised risk and increased construction cost

The following table illustrates where risk has materialised, (i.e. transferred from the risk register into the construction cost), since the February report. It is worth noting that a significant proportion of the materialised additional costs are associated with blast resistance requirements we are required to meet. These conditions have proved increasingly onerous and costly over the past year and we are currently attempting to make an accurate estimate of the overall financial and programme impact they have made on the project.

<table>
<thead>
<tr>
<th>Package</th>
<th>Additional cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>QH reconstruction</td>
<td>21,500</td>
</tr>
<tr>
<td>QH metal blast doors &amp; windows</td>
<td>19,539</td>
</tr>
<tr>
<td>Toilet/fitness etc</td>
<td>100,000</td>
</tr>
<tr>
<td>Bulk excavation</td>
<td>-37,589</td>
</tr>
<tr>
<td>Assembly building concrete</td>
<td>3,750,10</td>
</tr>
<tr>
<td>Canopies</td>
<td>27,807</td>
</tr>
<tr>
<td>Toilet/fitness etc</td>
<td>42,000</td>
</tr>
<tr>
<td>QH scaffolding</td>
<td>500,000</td>
</tr>
<tr>
<td>QH reconstruction</td>
<td>71,310</td>
</tr>
<tr>
<td>Off site stone storage</td>
<td>30,000</td>
</tr>
<tr>
<td>Mock-ups</td>
<td>80,000</td>
</tr>
<tr>
<td>Blast testing</td>
<td>100,000</td>
</tr>
<tr>
<td>Specialist glazing</td>
<td>1,440,14</td>
</tr>
<tr>
<td>MSP stone cladding</td>
<td>1,000,00</td>
</tr>
<tr>
<td>MSP mullions, louvres etc.</td>
<td>500,000</td>
</tr>
<tr>
<td>QH windows</td>
<td>13,268</td>
</tr>
<tr>
<td>MSP and QH flooring</td>
<td>30,000</td>
</tr>
<tr>
<td>QH metal doors/blast windows</td>
<td>197,000</td>
</tr>
<tr>
<td>QH decorations</td>
<td>-84,064</td>
</tr>
<tr>
<td>Specialist glazing</td>
<td>500,000</td>
</tr>
<tr>
<td>Zonal fit-out</td>
<td>4,741,47</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>13,042,494</strong></td>
</tr>
</tbody>
</table>

B: Inflation
The impact of inflation has been reassessed in the light of the most recent information from the BCIS. The current total attributable to inflation in the cost plan is £18,667,965.
FINANCE COMMITTEE

CONSULTATION RESPONSE TO MOVING TO OUTCOME BUDGETING

Background
At the Finance Committee’s meeting of 22 May 2001, Members agreed to submit a bid for external research on outcome based budgeting to the Conveners’ Liaison Group (CLG). The research aims and objectives were as follows:

- To investigate the feasibility of outcome budgeting for the Scottish budget;
- To identify areas where it could be applied; and
- To develop practical proposals to assist Committees in measuring outcomes in the analysis Scottish budget.

Having secured agreement to the bid from the CLG, Norman Flynn was commissioned to carry out the research and his final report “Moving to Outcome Budgeting”, was published on 16 May 2002.

The Consultation
A consultation exercise on the final report was initiated immediately after publication. A total of 68 organisations were asked to provide their views on the research, using the following questions as a structure for their responses:

1. To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?
2. On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?
3. To what extent has outcome budgeting been adopted by your organisation? Where appropriate, what have been the advantages and disadvantages?
4. Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?
5. What effect, if any, has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?
6. If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvements in the way policies and objectives are pursued?
7. Would a move to outcome budgeting improve monitoring and accountability in your organisation?
8. What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?
9. Do you feel that setting specific policy targets - and allocating resources according to these - may lead to unexpected outcomes?
10. Do you think it is likely that outcome budgeting will be more widely
adopted in future?

11. Are there any other comments you would like to make?

It is worth noting that of the 64 organisations asked to comment, only 25 responded. Moreover, not all of the respondents answered fully the questions outlined. A list of all the consultees, highlighting those who responded, is included at Annexe 1. All the consultees’ responses are attached at Annexe 2.

The Response

This paper highlights some of the key messages to have emerged from the consultees’ responses. Before doing so, there are caveats worth stressing. Outcome budgeting, as is acknowledged in Norman Flynn’s report, is a method of accounting that has not, as yet, been adopted on a widespread basis by any government. Rather, a few governments have made limited progress on moving towards outcome budgeting, particularly through the inclusion of outcomes in the budget process. Secondly, a move towards outcome budgeting is likely to be a complex process, which may be achievable only over a lengthy period of time. Again, this is something that was mentioned in Norman Flynn’s report. As these two concerns were repeatedly stressed by respondents, it is worth putting their concerns into context.

The analysis below, showing what the respondents perceive to be the more specific benefits and drawbacks of outcome budgeting, appears to show that opinion is almost equally divided. However, it would be more accurate to state that most respondents had serious reservations about the introduction of outcome budgeting. These reservations do not amount to outright rejection; there is a consensus that outcome budgeting is something that is worthy of greater consideration and research than has been the case until now. Moreover, in the limited cases where an attempt has been to move towards a method of outcome budgeting, this has been done in tandem with existing budgeting methods. This reinforces the message that outcome budgeting is a long term development, since, at this stage, it is a system that is not currently seen as a replacement method, but rather, as a complementary method of budgetary control.

A final point of note is that there may also be differences in interpretation as to what outcome budgeting actually means; SEPA, for example, challenges the definition of outcome budgeting provided, preferring instead “a budget process that makes resource allocation and control decisions based on the results of expenditure”. It also appears from some of the responses received from different NHS organisations, that what is considered outcome budgeting in one area, is a definition not necessarily held by all NHS Boards and Trusts.

With this in mind, some of the main benefits or drawbacks of outcome budgeting suggested by the consultees can be summarised as follows:

Benefits of outcome budgeting
- Most useful when used to communicate information regarding the deployment of funds for specific outcomes (SEPA)
- Allows organisations to clearly demonstrate the benefits of money being spent in specific areas or on specific projects, making the organisation more accountable to its public and its stakeholders (SEPA)
- Gives primacy to performance measures that are more meaningful in terms of people’s lives (Communities Scotland)
- Could achieve improved integration between the process of agreeing priorities and desired outcomes and that of allocating resources (Communities Scotland)
- Provides focus, and even impetus to challenging option appraisal as part of a process of strategic decision making (Communities Scotland)
- May lead to increasingly effective organisations and encourage multi-agency working (Highlands and Islands Enterprise)
- Could mean a move towards longer term planning and target setting which will provide stability and strategic clarity for the public sector (Highlands and Islands Enterprise)
- May enable local flexibility in delivery to support consistent national priorities (Scottish Enterprise)
- Could encourage the strategic direction of economic development in Scotland to be based on longer term economic impact rather than short term issues such as expenditure (Scottish Enterprise)

**Difficulties of outcome budgeting**
- Could complicate decision making process (SEPA)
- Does not provide management with accurate cost analysis or audit trail, which is essential to maintaining strong and robust financial management (SEPA)
- If there are financial penalties for under-performing services, what happens to the service still to be delivered? (ADES)
- Main difficulty is capturing a robust measurement methodology that supports the process (NHS Grampian)
- Would the level of realised benefits be commensurate with the level of resources required to implement the process, including the information requirements? (Shetland NHS Board)
- Identifying a clear link between the resources provided and the outcome achieved can be difficult with outcomes potentially emerging several years after the input (Highlands and Islands Enterprise)
- Outcomes can be the result of the combined impact of several different agencies, and the specific contribution of each agency may be difficult to identify and quantify (Highlands and Islands Enterprise)

**Conclusion**
While the response to Norman Flynn’s research has expressed serious concerns about the practicalities of implementing outcome budgeting, only one organisation (NHS Highlands) has come near to actually rejecting the idea entirely. Many of the responses were critical of some of the principles of outcome budgeting and expressed scepticism about its effectiveness, but also acknowledged that fact that it may become a more realistic prospect in the future, providing further development work is carried out.
As many of the potential benefits and drawbacks identified above are rather theoretical, it may appear more instructive to examine the experiences of the three organisations that indicated in their responses that they have taken some steps towards an outcomes based method of accounting. However, the experiences of Highlands and Islands Enterprise, NHS Lanarkshire and Greater Glasgow NHS Board, illustrate that there is a mixed message in terms of the benefits of this approach:

**Highlands and Islands Enterprise**

“HIE (has) establish(ed) some very specific outcome indicators and links these to specific longer term objectives, project outcomes and consequently resource inputs. One of the main problems encountered and currently being reviewed is the fact that a specific investment in a single project may in reality result in several outcomes being achieved, however, it is not possible to discriminate between the specific financial investment and each of the outcomes.”

**NHS Lanarkshire**

“A number of Outcome Budgeting approaches have been tried for the Health Service over the years, e.g. management budgeting. These have never had any real success and the traditional approach of setting budgets based on staff, premises etc, as a method of allocating resources within health organisations has continued.”

**Greater Glasgow NHS Board**

“We currently use outcome budgeting for new funding like waiting times, Discharge Planning, Winter Issues, Cancer, etc, as well all the work on the national priorities. Advantages are apparent in the greater control and the direct link to results. Disadvantages would include the time taken up by the consultation and monitoring process, etc.”

**Next Steps**

At this stage, members are asked to consider whether there is any merit in continuing the dialogue on Norman Flynn’s research, as a means of trying to persuade organisations of the benefits of moving to a system of outcome budgeting.

However, given the nature of most of the organisations contacted in this consultation exercise, the decision on whether or not they can move more fully towards outcome budgeting is probably of equal importance for the Scottish Executive as it is for themselves. Unfortunately, the Executive, to date, has not sent in a response, so its position is unclear.

Members are invited to consider whether they would like to take oral evidence from the Scottish Executive to ascertain its views on outcome budgeting and whether there are any plans or timetables in place to introduce such a system.
Two organisations, SEPA and HIE, have stated their willingness to assist the committee in any future deliberations on the practicalities behind moving to outcome budgeting, and it may be that other bodies would also be willing to help. There may be scope for hosting a civic participation event to allow these organisations to debate more fully the research. Alternatively, the Committee may consider selecting one or two organisations committed to outcome budgeting as case studies, and then maintain a regular dialogue to see how far they are progressing.

Members are asked to consider whether there is any merit in holding a civic participation event, to consult with several different organisations or select a small number of case studies to monitor their progress towards outcome budgeting.
Annex 1 – List of Consultees

Table 1 below shows all the organisations that were consulted as part of the consultation exercise, and places in italics the organisations from whom responses were received.

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADES</td>
</tr>
<tr>
<td>Argyll and Clyde Acute Hospitals NHS Trust</td>
</tr>
<tr>
<td>Argyll and Clyde NHS Board</td>
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<tr>
<td>Association of Chief Police Officers Scotland</td>
</tr>
<tr>
<td>Audit Scotland</td>
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<tr>
<td>Ayrshire and Arran Acute Hospitals NHS Trust</td>
</tr>
<tr>
<td><strong>Ayrshire and Arran NHS Board</strong></td>
</tr>
<tr>
<td>Ayrshire and Arran Primary Care NHS Trust</td>
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<tr>
<td>Borders General Hospital NHS Trust</td>
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<tr>
<td>Borders NHS Board</td>
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<tr>
<td>Borders Primary Care NHS Trust</td>
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<tr>
<td>CIPFA in Scotland</td>
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<tr>
<td><strong>Communities Scotland</strong></td>
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<tr>
<td><strong>COSLA</strong></td>
</tr>
<tr>
<td>Crofters Commission</td>
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<tr>
<td>Deer Commission for Scotland</td>
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<tr>
<td>Dumfries and Galloway Acute Hospitals NHS Trust</td>
</tr>
<tr>
<td>Dumfries and Galloway NHS Board</td>
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<tr>
<td>Dumfries and Galloway Primary Care NHS Trust</td>
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<tr>
<td><strong>Engender Women’s Budget Group</strong></td>
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<tr>
<td>Fife Acute Hospitals NHS Trust</td>
</tr>
<tr>
<td>Fife NHS Board</td>
</tr>
<tr>
<td>Fife Primary Care NHS Trust</td>
</tr>
<tr>
<td>Forth Valley Acute Hospitals NHS Trust</td>
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<tr>
<td>Forth Valley NHS Board</td>
</tr>
<tr>
<td>Forth Valley Primary Care NHS Trust</td>
</tr>
<tr>
<td><strong>Grampian NHS Board</strong></td>
</tr>
<tr>
<td><strong>Grampian Primary Care NHS Trust</strong></td>
</tr>
<tr>
<td>Grampian University Hospitals NHS Trust</td>
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<tr>
<td>----------------------------------------</td>
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<tr>
<td>Greater Glasgow NHS Board</td>
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<tr>
<td>Greater Glasgow Primary Care NHS Trust</td>
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<tr>
<td>Highland Acute Hospitals NHS Trust</td>
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<tr>
<td>Highland NHS Board</td>
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<tr>
<td>Highland Primary Care NHS Trust</td>
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<tr>
<td>Highlands and Islands Enterprise</td>
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</tbody>
</table>
ADES Response to The Scottish Parliaments Research on Moving to Outcome Budgeting

1. The case for extensive use of outcome budgeting has not been made. There is a need for the debate to continue and for the Scottish system to decide whether it wishes to go down this route more whole heartedly or not. There remains considerable tension between control and results. This may, in part, be teething issues arising from the new constitutional settlement but there remains far too much emphasis on process and artificial control.

2. Various forms of budgeting should not be viewed as mutually exclusive. Nevertheless alternatives to traditional incremental input budgeting require to be developed. Such activity as there has been in Scotland so far has been far too tentative. Discussions around pilot local outcome agreements have been based on budgets still allocated centrally in terms of inputs using traditional allocation methods. Outcome budgeting can provide an appropriate discipline to focus on effectiveness of service and should reduce unnecessary prescription of process. It should also allow greater creativity and diversity in the system. The principal disadvantage is, of course, that, if there are financial penalties for under performing services, what happens to the service still to be delivered?

3. As stated above there is some experimentation with local outcome agreements but this has not yet focussed fully on outcome budgeting.

4. Not relevant for the Association at this time.

5. Not relevant for the Association at this time.

6. Increased commitment towards extensive use of outcome budgeting would require a clear concordat between local government and the Scottish Executive. There could also be a danger that everything would have to be measured and countering the acquisition that we only value what can be measured by measuring everything seems weak.

Outcome budgeting can be more rigorous but must not be an industry alone which would defeat the purpose.
7. Yes, in principle subject to certain safeguards and reductions in other forms of accountability. A limited form of public service agreement could be piloted in Scotland to replace the myriad range of ring-fenced, single stream funds in particular service areas.

8. There would be a need to consider the way in which outcome budgeting affected other Scottish Executive initiatives such as national education priorities. There would have to be far greater powers of virement. In addition, it is rather sweeping of the researcher to suggest that the school inspection process is based on outcomes. The inspection process remains, to a large extent, based on quality indicators describing activity associated with effective performance but this may not always be the case. In other words quality indicators not performance indicators.

9. There is scope for outcome budgeting to be introduced. There should be further experimentation.

10. There is a need for increased boldness with regards to use of incentives and pilot activity regarding outcome budgets. This would have to be associated with making a real difference in, for example, the lives of children. There would have to be an associated reduction in other policy audit arrangements.

11. Outcome budgeting and targets should be developed in co-ordination with existing quality indicators and must not become an additional layer of targets. This would cause confusion in an already over crowded field of plans, targets and indicators.

The Association would, of course, wish to ensure that any development of outcome budgeting was not to the detriment of basics of budgeting, accounting control and good corporate governance.

Outcome budgeting should certainly be explored to reduce the fracturing of the budgets through single streams and ring fencing.

A few specific points worth making.

Without debating fully the difficulties in associating education expenditure with outcomes given the number of variables, paragraph 4.43 somewhat misrepresented the opportunity costs to local authorities regarding the fractured way in which money is dispersed. The point made by local authorities is that there is often too much work for very little money. There are seldom any difficulties with accounting for the resource. Seldom, however, are we asked to account for resources solely in terms of outcomes. Of course there is a difficulty in accounting in terms of outcomes given the plethora of initiatives it is impossible to distinguish cause and effect. If local authorities were able to prioritise a small number of outcomes on an annual basis and
seek additional expenditure to help meet enhanced targets then the additional money could be justified on the basis which the author is exploring.

The Association do not altogether follow the reference on page 35 to the relationship between the quality of leadership in schools and the priority reflected in conditions for the schools funding settlement following the McCrone Report on Teachers’ Pay and Education Finding Levels. The Association does welcome the implications behind paragraph 45.2 on the ways in which there could be more systematic exploration of alternatives.

The Association would particularly wish to endorse:

"Without such evaluation of alternatives and consideration of the opportunity costs of existing patterns of spending, it would not be possible to integrate the work on outcomes with the resource allocation process".

ASSOCIATION OF CHIEF POLICE OFFICERS IN SCOTLAND

Finance Standing Committee

Secretary: D Cross Esq FCMA
Director of Corporate Services
Tayside Police

Outcome Budgeting Consultation

I refer to your letter of 18 June 2002 which I distributed to the Finance Officer for each of the eight Scottish Police Forces for comment. Although you did ask specific questions, the responses tended to be general comments on the proposals and I summarise them below.

- Outcome budgeting could only be used within individual Forces. It could not be used to allocate resources to the Service as a whole and it could not be used to allocate resources to the Forces within the Service
- One Force did not see anything in the proposal that improves on POLICY Led budgeting
Resources in one Force have been allocated based on the 3 main priorities – Public Reassurance, Engaging Criminality, and Response Policing. The achievement of success cannot always be measured in objective terms and a public feeling of “well-being” or safety may well indicate success for the police force.

The budget is simply a short term plan aimed at achieving the force strategy.

The adoption of BVACOP (Best Value Accounting Code of Practice), which will be informed by the ABC exercise, will equate closely to what the report proposes.

I trust these comments are useful in your deliberations.

NHS Ayrshire & Arran

Outcome budgeting

Thank you for the opportunity to comment on the report “Moving to Outcome Budgeting”.

The report makes some very sensible points and in particular I think it is important to note that the Audit Committee of the Scottish Parliament is responsible for reviewing efficiency and therefore would look at the inputs and the outputs that are derived. I can therefore understand that the Finance Committee of the Parliament would have an interest in the outcomes of the investment of resources, however my view is that outcomes should not drive the allocation of resources and that resources should be allocated on the basis of the needs of the population. I would therefore support the Health Service (Arbuthnott) model which was based on a detailed review of the needs of the population, age profile, deprivation and rurality issues used as the basis of budget allocation within the Health Service.

The Health Service has instituted a new Performance Assessment Framework which identifies over 100 outcomes which are monitored and which indicate areas for improvement and therefore have an impact upon investment decisions locally. If, however, this Performance Assessment Framework were used for resource allocation nationally, it would mean either punishing poor performance by giving less to the most needy population (i.e. worsening the service to people who already get the worst service and thereby going against social justice objectives) or else rewarding poor
performance by giving more money. My view would therefore be that the allocation of resource has to be based on the needs of the population and the Performance Assessment Framework is an accountability mechanism rather than a resource allocation mechanism.

Public services are used to receiving hypothecated funding for a particular purpose with an identified outcome. Often in the Health Service, the funding is not released until an appropriate plan is put in place and approved, which shows that the desired outcome should be achieved. Examples of this in the Health Service include waiting lists, delayed discharges etc. Attempts to do something similar in local authorities around the extra investment for Elderly Services with an associated local outcome agreement, has not ensured that the resources will be spent in the area intended. The only way for central government to ensure money allocated to democratically elected local authorities is used on the national priority intended is to hypothecate it.

Within the Health Service, the Scottish Executive Health Department has a single Directorate of Performance Management and Finance and therefore the integration of resource allocation with performance management is evident.

I would also point out that in terms of health improvement, it is a long-term perspective to investment and therefore the outcome may not be seen in a short period of time which is therefore politically difficult. The improvements to health are also multi-factorial and influenced by deprivation, employment, housing, etc so investment in employment may have a knock-on impact on health. It is therefore important to recognise the interdependence of many public sectors for achieving each other’s objectives and outcomes.

I would support the suggestions for improvements to the process as outlined in the Executive Summary and also the recommendations at the end of the report (with the possible exception of 5.13 and 5.14 where there may be a vested interest for the author of the report). These recommendations do not however indicate to me that budgets should be based on outcomes, but rather outcomes should be used to evaluate the benefits achieved from the investment.

Yours sincerely

Derek Lindsay
Director of Finance
Dear Des
Consultation on “Moving to Outcome Budgeting”

Thanks for the opportunity to consider the research paper by Norman Flynn and comment on the specific questions raised by your Committee. The paper was both informative and stimulating and, as a ‘case study’ in the report it has been particularly valuable for Communities Scotland to learn what has been achieved to-date elsewhere.

Could I take the specific questions posed in the consultation in turn:

1. To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

The report has made a case for further development of outcome budgeting, however, it is evident that this will require appropriate time and resource to be invested if outcome budgeting is to deliver desired benefits.

2. On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?

It is not yet clear that outcome budgeting represents the best possible form of budgetary control. Indeed, the report appears to argue that outcome budgeting cannot operate in isolation from, and should be combined with, simplified approaches to input and output-based budgeting. Given the current state of development of outcome budgeting, Communities Scotland concurs with that view. There is, however, some evidence that control at the national or portfolio level can be enhanced by outcome budgeting.

We consider that some advantages of outcome budgeting are that it can:

- Give primacy to performance measures that are more meaningful in terms of people’s lives.
- Achieve improved integration between the process of agreeing priorities and desired outcomes and that of allocating resources.
- Provide focus, and even impetus, to challenging option appraisal as part of a process of strategic decision making.

Ever the pessimist, against these may be set the following disadvantages:

- Achievement of genuine outcomes will take time to achieve and budgetary cycles are necessarily short-term (three-years at most, frequently with annual re-assessments). In this sense there are compatibility issues and tensions.
Outcomes may be hard to measure and are likely to be particularly challenging to attribute to any one intervention, let alone one ‘budget-holder’ or accountable body. Further thought will be required about how outcome budgeting can genuinely increase operational control, particularly in policy areas such as Social Justice.

There is likely to be very limited evidence of the ‘early wins’ that are so often necessary in public and political arenas. This is particularly true where hard decisions on resource allocation have to be made. This need not be a weakness, however, if decisions are demonstrably robust and decision-makers remain resolute!

3. Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?

As yet there is limited evidence to substantiate this. In fairness, it is probably too early to comment.

4. What effect, if any, has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?

It is clear that the focus on outcomes is improving the identification and articulation of policy aims by focusing on their relevance to the people of Scotland.

Internally, though Communities Scotland is already focusing on articulating our impact in terms of outcomes, this has been as part of a process of improving performance management and planning systems, rather than as a result of a move towards outcome budgeting.

In terms of dealings with partners, there are two points to make:

- Communities Scotland has first hand experience of exercising certain of the principles of outcome budgeting through the resource allocation system which we apply to our housing investment programme. In addition to the example quoted in the report of allocating 5% of resource on the basis of performance, since 1997 the performance of housing associations have had a direct impact on the level of capital funding they have received, with ‘better performing organisations’ receiving explicit preference.
- Our recently developed regulatory framework covering both housing associations and local authority landlord functions focuses on the outcomes expected from well-planned and managed housing and homelessness services. Aside from being highly appropriate, this extension from process and management issues to outcomes ought to help create the conditions where more widespread introduction of outcome budgeting can be effective.

5. If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvements in the way policies and objectives are pursued?
As yet Communities Scotland’s budgets have not been explicitly linked to outcomes, though we anticipate that the results of the Spending Review 2002 will provide further impetus to this approach.

6. Would a move to outcome budgeting improve monitoring and accountability in your organisation?

It will make clearer what impact the agency’s work is having on the lives of the people of Scotland. It can aid resourcing decisions. The report, however, recognises the challenges that face government bodies engaged in delivering Social Justice given the multiplicity of interests and interventions and the challenges associated with attributing successes. For the full benefits to be realised it will be important to ensure that ‘accountabilities’ are aligned in a way that will enable the system to operate. By way of illustration, the delivery of Social Justice objectives in a specific locality may well entail joint funding from the Scottish Executive and the Local Authority and other interests to a Community Planning Partnership responsible for delivery of the outcomes.

7. What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

Communities Scotland currently delivers a range of programmes on behalf of Scottish Ministers. Programme allocations are founded in the main on agreed projects and outputs. These are relatively easy to monitor and assess. Some, such as the development of homelessness strategies, are outcome based. This entails the prior agreement of all the parties concerned to the terms of the outcome agreement and the basis for assessing performance against outcomes in order to trigger payments. Thus there is an increased demand to agree realistic outcomes that are measurable and to assess performance against these outcomes ensuring a commonality of approach that is robust and equitable. These are developments of skills already contained within the Agency.

Whilst there are these administrative implications for Communities Scotland, we welcome the concept of outcome budgeting as providing greater flexibility to the grant recipient on the application of those funds. It does, however, place a greater responsibility upon the funding organisation to ensure that the funds consumed have been used for the purpose intended.

As an Executive Agency, Communities Scotland can expect to be held accountable for ‘delivery’ of certain results, though, in practice and in common with much of the Scottish Executive itself, much of what the agency can achieve is through others’ efforts. As outlined above, effective outcome budgeting must make accountabilities clearer, basing them on matters within the control of the bodies in question.

8. Do you feel that setting specific policy targets – and allocating resources according to these – may lead to unexpected outcomes?
It is possible that medium to longer-term improvements in targeted service areas would come at the expense of short-term shortcomings in service areas from which resources had been withdrawn. It is equally likely, however, that such targeted improvement would have ‘spin-off’ benefits in related policy areas.

9. Do you think it is likely that outcome budgeting will be more widely adopted in future?

Given the increasing and appropriate emphasis on outcomes as the currency for evaluating the results of intervention, it is highly likely that outcome budgeting will be more widely adopted in future.

10. Are there any other comments you would like to make?

No.

Maud Marshall
Director of Investment and Performance
Communities Scotland
3 July 2002

David McGill
Clerk to the Finance Committee
Scottish Parliament
Room 2.1
Committee Chambers
George IV Bridge
Edinburgh
EH99 1SP

Dear Mr McGill

MOVING TO OUTCOME BUDGETING

On 18 June the Convener for the Finance Committee wrote to COSLA inviting views on research which had been undertaken and recommendations made on outcome budgeting.

COSLA has significant concerns over the extent of ring-fencing and central direction applied to local government resources. This gives an unhealthy focus on inputs and the development of new initiatives at the expense of core services. A focus on inputs and ring-fencing leads to:

- A system that is rigid and bureaucratic;
- Innovative working practices and projects are inhibited by the lack of flexibility in the use of resources;
- The additionality ruling results in forward thinking councils being penalised for leading the field in addressing central government priorities;
- Annuality of funding can lead to underspends, short lead in times for projects etc;
- Reacts to short term issues rather than addressing priorities from a strategic point of view;
- Results in councils taking forward projects to suit available Scottish Executive funding.

Given these problems, COSLA has been promoting a move from an input to an outcome focus; it is the delivery of quality services on the ground to the public which is at the end of the day paramount. There is a danger, however, that a proliferation of outcome agreements could be put in place as a substitute for ring-fencing. There is also a concern that there needs to be a better balance between national and local priorities and a clearer link with the community planning process.

In response to this situation, COSLA has developed and is promoting a single outcome agreement that operates at national and local levels. This would translate into a strategic outcome agreement for each council framed around national priorities and delivering against a limited number of key indicators. This should give local councils the flexibility to deliver on agreed priorities on a best value basis at a local level.

WHEN CALLING PLEASE ASK FOR: Norie Williamson 0131 474 9233 norie@cosl.gov.uk
Attached for your information is a copy of the model outcome agreement which has been developed and is being promoted by COSLA throughout the current Spending Review process.

I trust you find this informative and in some respects complementary to many of the findings of your Committee’s research into outcome budgeting.

Yours sincerely,

[Nurs Williamson]
Director of Finance
OUTCOME AGREEMENT: THE SCOTTISH MODEL

EXECUTIVE SUMMARY

1. The purpose of this report is to present a proposal for the development of a single outcome agreement that operates at national and local levels.

2. There would be an agreement between COSLA and the Scottish Executive on a set of shared but limited policy priorities. Associated with this agreement would be a rationalisation of the many, often competing initiatives and targets with a shift to funding the shared priorities from mainstream funding rather than ring-fenced grants.

3. A key part of the agreement would be an acceptance of the need for equal space and a better balance between national and local priorities and a recognition of the role of the community planning process in acting as the bridge between these two sets of priorities. It is accepted that there are a number of organisations who will have to balance their national obligations with the contribution they make as community planning partners but there must be a recognition by Ministers of the need and space for such bodies to engage in addressing local issues through the community planning process.

4. Given the innovative nature of the proposed Outcome Agreement, we believe that the approach to monitoring and review should be flexible and tailored to each agreement rather than a "one size fits all" approach. It is proposed that COSLA and the Executive would agree a menu of outcome indicators linked to each of the shared policy priorities. To reflect the partnership approach, the mechanism for monitoring should be agreed between the Executive and COSLA.
OUTCOME AGREEMENT: THE SCOTTISH MODEL

1. Purpose of report

The purpose of this report is to present a proposal for the development of an Outcome Agreement which would operate both at national and local levels.

2. Introduction and background

2.1. The concept of outcome agreements was developed as part of the work of the Joint Scottish Executive/COSLA Strategic Issues Working Group, which considered the renewal of the local government finance system during 2000. The Group recommended that local outcome agreements be established to better link national policy priorities and targets with local priorities and circumstances, to reduce the reporting requirements on councils and to reduce hypothecation and the ring-fencing of resources.

2.2 The Working Group also recommended that the pilot outcome agreements should be on the basis of a policy theme or themes where there were potentially significant benefits to be obtained from greater flexibility. Two key policy themes were identified – education attainment and children’s services and draft agreements are being developed by a number of pilot councils. Since the Working Group reported a number of additional funding initiatives have developed an outcome agreements approach – the Better Neighbourhoods Services Fund, the Rough Sleepers Initiative, Adult Literacy and Community Care Services for Older People.

2.3 COSLA and SOLACE have identified a number of issues that need to be addressed if outcome agreements are going to realise their potential. Firstly, there is a danger that we could end up with a proliferation of single issue outcome agreements substituting for ring-fencing and we need to be looking to consolidate the various agreements. There is also a concern that having too many agreements does not allow us to focus on the most important policy areas. Secondly, in establishing a better link between national and local policy priorities we must ensure that the outcomes we are seeking do reflect shared priorities and there is a greater recognition of the need to leave room for local priorities. Finally, many of the improved outcomes we are aiming for are dependent upon partnership working – for example in relation to cross-cutting issues such as social justice, health improvement, sustainable development and community safety. There should, therefore, be a key role for community planning partnerships and the Scottish Executive itself in supporting the improvements.

2.4 In order to address these concerns it is proposed to develop a single outcome agreement that operates at national and local levels. A national level agreement would be based on a set of shared limited policy priorities agreed between the Scottish Executive and COSLA.
2.5 The structure of this report is based on the 3 stages envisaged for the development and implementation of this agreement, namely:

- **Stage 1**
  Agreement between COSLA and the Scottish Executive on a set of shared policy priorities.

- **Stage 2**
  Agreement between COSLA and the Scottish Executive on the menu of indicators for each of the policy priorities.

- **Stage 3**
  Implementation and Monitoring at the local level of the National Outcome Agreement.

3 Agreement on shared priorities (Stage 1)

3.1 The Scottish Executive's priorities are set out in “Programme for Government”. The Scottish Executive recognises that they will not deliver these priorities alone. Indeed, the Executive itself doesn't deliver services, it provides resources and it sets national standards in key areas, but delivery is down to local government, the NHS and other public sector bodies as well as the voluntary and private sectors. They need to work in partnership. Moreover, if we are to be successful these priorities must be shared priorities and have ownership within councils, across the public sector, with business and the trade unions and within the communities themselves. This partnership approach must be reflected at the community planning level with a recognition that the needs of individuals and communities – if they are to be successfully addressed – have to be addressed collectively, not separately. That, in turn, requires a commitment to a shared purpose by the community planning partners and the Scottish Executive – to plan together, to work together and to deliver together.

3.2 If everything is seen as a priority, then as a result nothing is treated as a priority. COSLA therefore welcomes the First Minister's statement to the Scottish Parliament that “it is time for this Executive to do less, better…… It means, very deliberately, focussing our efforts on the five national priority areas: health, education, transport, crime and jobs” (9 January 2002). That statement also stressed that every action must close the gap for children and sustain the environment. We believe that these national priorities and underpinning themes could be built upon to provide the basis for an agreement on a shared set of priorities which we all could give our commitment to delivering. In particular, we would want to see the promotion of social inclusion for everyone and the provision of better housing as underpinning themes. This agreement could then form the basis of a national overview document – a strategy for Scotland – similar to the Welsh Assembly’s Strategic Plan.

DS/BW/Outcome Agreement: The Scottish Model
14/5/02
3.3 We also believe that we should review our spending in the context of these shared priorities. This is something that the First Minister is already requiring in the current spending review. COSLA supports this and will look to these priorities being fully funded through mainstream funding. This should also enable the many, often competing targets, initiatives and planning requirements, which face councils and their partners, to be rationalised to focus on the priority areas we all agree matter most to local people. This rationalisation of initiatives will also shift the balance to mainstream funding with more limited (and time – limited) use of ring fencing. This approach to central government support for local government spending taking the form of general grant aid rather than ring fenced grants is reflected in the recommendations of the Parliament’s Local Government Committee’s report on their Inquiry into Local Government Finance (March 2002). Moreover, that report also recommends that the level of ring fencing should be reduced as progress is made on developing local outcome agreements. The need to streamline and rationalise initiatives is also shared in England and Wales. Recently the Cabinet Office, DTLR and the Local Government Association published "Making a Difference – reducing red tape and bureaucracy in local government". One of the targets included in this document was to reduce the number of plans and strategies Government requires from councils by 50%

3.4 Community planning at the level of the Council is a shared vision to improve opportunities and quality of life agreed by the community planning partners within the Council area. But community planning also has a national dimension. An analysis of the 32 Community Plans shows a demonstrable recognition of national priorities. Community planning has the capacity both as a planning and delivery mechanism to co-join national priorities on the one hand and local priorities on the other, provided firstly that the number of shared national priorities is limited – if everything is a priority nothing is a priority and, secondly, there is space for community planning partners to ensure the delivery of their shared vision. Community planning has the capacity to link the national to the neighbourhood. It is accepted that the number of national bodies engaged in community planning will have to balance their national obligations with the contribution they make as community planning partners to implementing the shared community plan vision. But equally there must be recognition by the Executive of the need for and space for such national bodies to engage in addressing local issues through the community planning process; that is the essence of good local governance.

3.5 Such an outcome agreement would be broadly similar to those that have been agreed between the Welsh Assembly and the 22 councils in Wales. In Wales they are called "Policy Agreements" and cover targets across the four key policy areas; education and learning, health and well-being, stronger economy and quality of life. They are agreements between the Welsh Assembly and each individual council with clear links with the Assembly’s Strategic plan nationally and the policy priorities in the community plans in each council area. A similar approach is beginning to develop in England as they seek to link their "Public Service Agreements" with a shared set of priorities with Central Government. COSLA proposes that the Scottish Executive agrees to
developing an outcome agreement in a similar way to the Welsh Assembly. In Scotland, however, we propose that the Outcome Agreement is developed within the context of the community planning process and include local priorities agreed within the partnership as well as covering the shared national priorities. This approach is also likely to be taken in Wales when they negotiate their next generation of Policy Agreements to run from 2004 (see Freedom and Responsibility in Local Government – a Policy Statement from the Welsh Assembly Government, March 2002)

4 Agreement between COSLA and the Scottish Executive on the Menu of Indicators for each of the National Priorities (Stage 2)

4.1 As the Executive develops its own agenda and new policy initiatives arise, the number of policy priorities and the indicators that are derived to measure progress have grown substantially. The Community Planning Task Force has mapped these indicators relating to a sample of the Executive’s key policies in:-

- Social Justice – 29 social justice milestones, addressing five major population groupings
- Economic Development – 12 lead measures, addressing three national priorities;
- Health – around 120 indicators, addressing seven headline issues;
- Education – at least 50 headline indicators, addressing five national priorities; and
- Environment – 42 indicators, addressing three national priorities

(source CPTF WG4 assessing the performance of partnerships – the impact of national policies)

It is self evidently important that the number of key indicators are limited. If not, nothing will change and everything will still be a priority.

4.2 It is proposed that COSLA and the Executive agree a menu of outcome indicators linked to each of the national priorities from which community planning partnerships would select a maximum of not more than 10 indicators. This would reflect the need for the delivery of national priorities to reflect local priorities and the targets for improvement to reflect local circumstances. Again this is similar to the approach being taken in Wales. We would suggest however, that the menu of indicators is based on "quality of life" or "well-being" indicators. The Community Planning Task Force is currently mapping the existing sets of cross – cutting indicators with the objective of developing a framework for charting progress of community planning partnerships.

4.3 The rationalisation of initiatives, targets and funding streams will give councils and their partners greater flexibility to use resources in a way that better reflects national as well as their local priorities. For local citizens and service users there are potential significant benefits in respect of seamless service provision and more targeted quality services.

DS/SW/Outcome Agreement: The Scottish Model
14/5/02
4.4 The benefits to the Scottish Executive are ultimately the commitment given by community planning partnerships to deliver key national priorities and tangible service improvements. Such an approach can promote innovation and better integration of services across the public sector and would provide a greater focus on tackling the most important priorities across Scotland. It also promotes a link between best value improvement and community planning and establishes a more strategic approach to supporting continuous improvement in public services with the Executive as an active partner. For both community planning partnerships and the Scottish Executive such an approach can reduce the bureaucracy associated with specific initiatives and a range of ring fenced funding streams.

4.5 In England and Wales resources are also made available from central government to support the development of the agreements and to reward performance against the agreed targets. COSLA and SOLACE have taken the view that the benefits outlined above should provide sufficient incentive to councils and the Executive to progress the "Model". There is a case, however, for the Executive to help councils and their community planning partners to increase their capacity to develop and deliver the outcome agreements. We also believe that the Executive's resourcing of community planning partnerships would show commitment to the process and a recognition of its potential to deliver better services.

5 Implementation, Monitoring and Review (Stage 3)

5.1 We would suggest that given the innovative nature of the Outcome Agreement proposed, the approach to monitoring should be flexible and be tailored to each agreement rather than take a "one size fits all" approach. This should be integrated with the audit / inspection process and existing reporting requirements. In this latter respect we would expect the focus of the monitoring and review to be on the progress achieved in delivering the milestones and outcome targets identified in the Outcome Agreement. This would be reported annually through the Public Performance Reporting Framework for the duration of the Agreement (a minimum of 3 years.) As well as reporting on progress the report would cover any external factors which had resulted in progress being better or less than anticipated.

5.2 To reflect the partnership approach to developing the Outcome Agreement, a similar approach should be taken in developing the mechanism for monitoring and review. We believe that these arrangements should be set in the context of the Partnership Framework between the Executive and COSLA. The involvement of the Scottish Parliament in this process could be through the mechanism of the Joint Committee to be established under the Concordat between the Parliament and COSLA.
Engender Women’s Budget Group

1. This response has been prepared by Engender Women’s Budget Group (EWBG), a self-organising group within Engender, an information, research and networking organisation for women in Scotland. Established in May 2000, EWBG has members from a range of organisations including statutory organisations, trades unions, the voluntary sector and higher education and has a part-time development worker.

Introduction

2. The first part of this response provides some brief discussion on links between gender impact assessment and outcome budgeting. The second part attempts to address those specific questions outlined in the consultation document that EWBG considers appropriate and relevant.

Gender and Outcome Budgeting

3. The core aim of EWBG is to ensure that gender impact analysis is embedded within the Scottish public policy process. EWBG has argued that gender impact analysis is a crucial factor in determining resource allocations on grounds of both equity and efficiency if spending allocations are to achieve the desired goals: Gender Impact assessment would:

   “support the goal of improving overall economic efficiency, as well as ensuring that any evidence of gender-bias in the promotion of social justice is accounted for and, where appropriate, offset. Analysing the gender impact of public expenditure in particular will aid governments in achieving a more effective targeting of available resources with regard to current spending, and the information gathered can be employed in redressing any unintended/undesirable gender-specific consequences of previous spending allocations.” (EWBG, 2000, p3)

4. Overall, EWBG is supportive of moving towards outcome budgeting in Scotland and considers that incremental progress in gender impact assessment would be essential to effective outcome based budgeting. Although the group accepts that it is possible to undertake some measurement of the gender impact of spending using output measurements, outcome measures would provide a much more meaningful basis for evaluating the impact of public expenditure in Scotland on women and men and girls and boys. Outcomes are more difficult to measure and often require a longer term view to be taken, but they are more important for understanding the impact of spending. Flynn (2001) identifies that it is difficult to exercise accountability solely for outcomes and that, in practice: ‘performance budgeting has tended to develop outcome definitions and measurements in parallel with output controls and some form of input controls’ (para. 2.13). EWBG accepts that
no single measurement would work on its own and envisages that, reflecting experience elsewhere, a workable approach would involve a mix of measures with outcomes playing an increasingly important role.

5. It has been argued that there is little scope for change in expenditure decisions at the Scottish Executive level and that adjustments made are marginal since most of the allocation of funds is committed from the previous year (Midwinter and Stephens, 2001). Whilst it is accepted that there are severe limitations and constraints in the allocation of resources and limited scope for change in the short-term, the need for understanding and addressing the gender impact of both existing and new spending remains essential. While the ultimate aim would be to change the way that the budget process is undertaken, it is also important to recognise that this is a long-term process requiring incremental and sustainable change. EWBG believes that this approach would be entirely consistent with incremental development of an outcome budgeting approach.

Responses to Questions from the Finance Committee

6. Question 1: To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

The report considers the evidence from other countries and the extent to which outcome based budgeting is already a consideration in Scotland. The report shows clearly that many lessons can be learned from experience elsewhere, although there remains a need to recognise that the situation in Scotland is unique. EWBG believes that the report makes the case for outcome budgeting whilst recognising that it is not a straightforward or easy process and appropriately stresses the need for a longer term view and incremental progress.

7. Question 2: On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?

It is entirely logical to view the outcome of spending as critical to policy appraisal and development. Outcome measurement is already being used by a range of organisations, particularly those funded through European Union programmes and by many voluntary organisations with funding sources such as the Community Fund. It is also recognised that some progress has already been made by the Scottish Executive in taking account of outcomes in spending plans.

In the first part of this response we have discussed why, from EWBG’s perspective, outcome budgeting holds significant advantages over output or input budgeting. The lack of focus on outcomes of spending programmes has, arguably, concealed and contributed to the opportunity gap between men and women that has still to be addressed in the investment in public services in Scotland.

Failing to account for gender as a significant factor in determining resource allocations will ultimately result in inefficiencies in the overall allocation of resources which will have knock on effects in terms of meeting the desired
objectives. Accounting for gender within an explanatory framework ensures transparency in the policy design process and indicates an understanding of the nature of gender inequality - gender will be essential to effective outcome based budgeting.

The report identifies that outcome measures need to be developed along with appropriate output and input measures – international experience suggests that no single measures can stand on its own as a fully effective measure of spending. The recommendations for a small number of high level outcomes maintained over the longer term to be developed in all areas, while maintaining outputs and unit costs as part of the budgetary process is supported by EWBG.

8. Questions 3-6: use of outcome budgeting in your organisation

Members of EWBG are involved in a wide range of organisations, some of which have used outcome measures in budgeting. These have involved a range of measures including user evaluation of services and have proved particularly helpful in developing more appropriate services for disadvantaged groups and developing action plans for improving access and delivery. Although the causal links between outcomes and outputs can be difficult to make, a greater understanding amongst staff of the wider purpose of the service being delivered (or other work being carried out) has also been beneficial in some cases.

EWBG is not aware of any organisation whose approach to budgeting is based exclusively on outcome budgeting.

9. Questions 7: Would a move to outcome budgeting improve monitoring and accountability?

EWBG believes that a move to outcome budgeting would improve monitoring, particularly if the approach takes full recognition of the Scottish Executive’s aim of mainstreaming equality and where gender is seen as a crucial dimension in that approach.

10. Question 8: What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

Moving to outcome budgeting should affect the approach to monitoring and evaluation of policy implementation across departments. The Executive’s monitoring of spending (and that of other public bodies and organisations funded by the Executive) is affected by a wide range of influences, including the media, that can lead to target setting that does not consider anticipated or desired outcomes. However, Norman Flynn’s report identifies a range of areas in which progress has been made in working towards outcome budgeting; in particular, the social justice milestones are a good example of the approach being recommended. As the recommendations suggest, there will also be a need to support the process of change, including capacity building with appropriate resource allocation (para. 5.7).

11. Question 9: Do you feel that setting specific policy targets – and allocating resources according to these – may lead to unexpected outcomes?
There is potential for unexpected outcomes in an outcome budgeting approach, particularly where gender considerations have been absent from policy development. EWBG has consistently argued that approaches to budgeting that fail to account for gender may result in inefficiencies in the overall allocation of resources which will have knock on effects in terms of meeting the desired objectives. A current example is the strategy on childcare which has created welcome developments in childcare places available, but the demand for places needs further consideration. A range of factors, including perverse effects such as the impact of benefits rules, mean that many women continue to use informal provision, resulting in a policy that is less effective than it could be in contributing to reducing the pay gap and addressing child poverty. Consideration of the supply side evidence suggests that the jobs created in this area are insecure and poorly paid. As the majority of these jobs are filled by women, one outcome associated with increased public spending on childcare provision is sustaining existing gender inequalities with regard to labour market segregation.

Conclusions
12. Several of the countries considered by Flynn in his report are countries in which gender budget initiatives have also been progressed. EWBG believes that fact is significant and no coincidence. We are pleased to note that outcomes form part of the Scottish Executive’s considerations in budgetary processes and urges that sustained incremental improvement is made in increasing the focus on outcomes. However, in focusing on outcome budgeting, there is a need to ensure that gender equality does not get lost since, as has been highlighted in the introduction to this response, assessment of the gender impact of spending would be essential to effective outcome based budgeting.

References
Dear Mr McNulty

Outcome budgeting

I am responding to your letter of 18 June 2002 on behalf of the three existing organisations comprising NHS Grampian.

As requested, the response tries to take into account the recommendations made in the report and attempt to cover the questions raised in your letter.

1. Overview

NHS Grampian financial strategists have been concerned for the last few years to link investment with outcomes. More recently, the drive to create such linkage has been enhanced by the emergence of ever-increasing cost pressures across all parts of the health system.

By linking directly investment with desired outcomes, it is strongly felt by some that a change to historical investment patterns can be managed over time, leading to outcomes desired in line with national and local priorities.

Norman Flynn's report goes a long way to supporting such methodology but equally highlights the challenges faced by those attempting to implement it.

2. Outcome Budgeting - the Rest?

With the continuing high level of importance placed on financial performance, it is hard to imagine in the immediate future the present input/output (day cases, waiting times, break-even year on year) methodology being replaced by outcome budgeting. Rather the latter would be run in parallel, offering an additional performance assessment tool and not a replacement.

Advantages of outcome budgeting include the opportunity to use the measurement of outcomes as a means of directing resources to meet strategic priorities. The main difficulty (rather than a disadvantage as such) is capturing a robust measurement methodology that supports the process.

3. NHS Grampian

Grampian has not yet adopted outcome budgeting in any significant way, due mainly to the difficulty in linking outcomes to inputs and the lack of human resource (or commitment?) to take forward the concept.

There is a fairly strong desire in Grampian to develop the concept of outcome budgeting but attempts to date have not borne fruit. We are currently going through a major change process that will lead to a unified system. This includes closer working together of strategic planning and finance functions. It must be assumed that this sort of environment will be conducive to looking at more effective ways of measuring the use of substantial resources. Outcome budgeting and performance management must be seen as a key addition to this most important responsibility.
4. Scottish Executive

The Arbuthnot formula for resource allocation is presently being phased in. Key drivers such as deprivation are built into the index that determines how resources will be allocated to areas of greatest need. The introduction of outcome budgeting by the Scottish Executive may well add a new dimension to the process, acting in some way as a "check and balance" to the needs based formula. Are outcomes required actually being delivered?

5. The Future

Allocation of Cancer resources is currently being performed on an outcomes basis as far as we can see although perhaps not in the true sense of the definition of outcome budgeting. It will be interesting to see how this "badged" funding process succeeds in achieving very specific policy targets. Success, actual or perceived, may lead to a significant increase in this form of outcome based investment with even greater moves away from the inputs/outputs traditional methods.

Outcome budgeting will be more widely adopted when it can be proved to be an effective addition to available management tools. Some method of outcome measurement that can be applied transparently and consistently would greatly enhance its attractiveness as at present, the amount of effort involved with no guarantee of success, is a risk that most organisations in the NHS at least are unable to take.

6. Conclusion

Outcome budgeting should offer organisations a compelling method of ensuring that resource allocations are as effective as possible in delivering strategic aims. Some definition of the technique which would provide ease of use and some guarantee of success would most likely assist with the spread of the process in practice.

We regret that our response is superficial but our current change management implementation is restricting available time to some extent. We look forward to becoming involved in the debate around outcome budgeting, however, and will observe progress with interest.

Yours sincerely,

[Signature]

Alan Gall
Director Designate Operational Finance
NHS Grampian

Cc: Ewan Robertson, CE, GPCT
    Alec Cumming, CE, GUHT
    Alex Smith, Finance Director, NHS Grampian Board
Mr David McGill  
Clerk to the Finance Committee  
Room 2.1, Committee Chambers  
Scottish Parliament  
George IV Bridge  
EDINBURGH  
EH9 1SP

Dear Mr McGill

Moving to Outcome Budgeting

I am pleased to be able to respond to the letter from Des McNulty dated 18th June 2002 on the research paper on "Moving to Outcome Budgeting". This response is on behalf of the Finance Directors at Trusts and the Board in NHS Greater Glasgow.

The report notes that "the NHS has developed outcome targets over the past two to three years and many are contained in "Our National Health" and it is unlikely that we will be able to guarantee that spending £"x" will result in £"y" improvement in health outcomes".

It seems to me that an allocation system based on need, as described in a model like the Arbuthnot formula, combined with appropriate achievable targets as specified in the PAF will ensure resources are directed in ways which will achieve the policy outcomes desired.

The following attempts to provide answers to some of the specific questions raised.

1. To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

We feel the report did not really make a case, and actually described accurately the difficulties that would be encountered and the limitations that our current data would result in. It also considers the difficulty in making funding transfer decisions - and concludes that even with greater outcome data it would still be difficult to switch funds within a service (e.g. health promotion versus treatment) much less between services, e.g. from health to education.

2. On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?
The report makes the point that the 'new monies' which are currently linked to outcomes are scrutinised by the ministers while the bulk of the core funding goes relatively unquestioned. This clearly is a weakness of the current set-up (at Trusts and Boards as well as the Executive level) but the report does not attempt to quantify what process and cost may have to be incurred to allow extended outcomes to be considered. Again, the use of appropriate high level objectives within the PAF would achieve this.

3. **To what extent has outcome budgeting been adopted by your organisation?** Where appropriate, what have been the advantages and disadvantages?

We currently use outcome budgeting for new funding like Waiting Times, Discharge Planning, Winter issues, Cancer etc as well as all the work on the National Priorities. Advantages are apparent in the greater control and the direct link to results. Disadvantages would include the time taken up by the consultation and monitoring process etc. Outcome budgeting can be successfully used to monitor and influence the planning process for both the short and medium term.

8. **What impact, if any would the Scottish Executive moving to outcome budgeting have on your organisation?**

It is difficult to say. If total outcome budgeting was adopted we would expect information overload, poor data collection, and frequently changing outcome targets etc. If the adoption was around the national priorities and the medium to long term issues, we would likely welcome the change - and it would allow us to stop focusing so much energy on too detailed questions about a single year. Obviously we would struggle to manage transfers of funds to other services, and it could be at risk if the other public services could deliver their outcomes more successfully than we could.

Yours sincerely

[Signature]

J M HAMILTON
Assistant Director of Finance

cc  GGNHSB Chief Executive
     GGNHSB Director of Finance
     GGNHST Directors of Finance
Dear Mr McNulty

OUTCOME BUDGETING

I refer to your letter of 18 June 2002, and would respond using your question numbers.

1 The Case for More Extensive Use of Outcome Budgeting?

The report highlights some of the advantages and benefits of moving towards Outcome Budgeting, but also notes the:

- limited progress elsewhere in the world
- the need to promote and preserve the audit trail, corporate governance and accountability
- the challenges of identifying appropriate outcome measures
- the potential bureaucracy around data collection and evaluation

On balance, the report would therefore appear to indicate that the development of Outcome Budgeting is not at a stage that can readily be translated into measurable accountability.

2 Outcome Budgeting as the Best Form of Budgetary Control?

As identified above, experience from elsewhere suggests that it is not possible to use Outcome Budgeting as the single form of budgetary control. The major reasons for this are:

- The complexity of the issues
- The difficulties of identifying / measuring / monitoring appropriate outcomes
- The failure at this stage to link outcomes over "cross cutting" programmes, which are being implemented in the move towards unified public service delivery
- The weakening of the audit trail, corporate governance and accountability
- The simplistic link of accountability to outcomes which fails to recognise identifiable and justifiable input variations, such as the significant additional costs of service delivery in remote and rural areas.

3 Outcome Budgeting within NHS Highland

NHS Highland has not formally adopted Outcome Budgeting, but a number of initiatives which move towards this have been implemented. These include:

- The commitment by NHS Highland to public accountability through the Healthy Promises initiative which has operated for the last three years. This identifies key deliverables by which the public, the Scottish Executive and the Scottish
Parliament can judge the performance of the local NHS. The published material includes a formal feedback of previous performance. *(Copies enclosed).*

- The introduction of the “Cost Cube” to explicitly link expenditure (inputs) and activity (outputs). This assists managers, decision makers, and also clinicians to set activity in the context of resource consumed. This may be the first stage along the road towards Outcome Budgeting, but it is important to establish the clear links of activity and finance - an aspect not generally well developed in the NHS.

- The establishment in NHS Highland of six Governance Committees to discharge NHS Board accountability. One of these is the **Health Improvement Committee** to focus on health targets, together with the processes, systems and services to improve these. This underlines the Board's commitment to improve health outcomes, but the work is at too early a stage to be used as the only form of budgetary control or formal accountability. In addition, the position, or data may not be the same across NHS Scotland, and could not therefore be applied for NHS accountability.

- The implementation of the Performance Assessment Framework (PAF) will assist in the move towards Outcome Budgeting since some of the PAF measures include outcomes. These will be used by the NHS Board, and the Scottish Executive for in year monitoring, and at the annual Accountability Review.

### 4 Is Budgetary Control more Effective with Outcome Budgeting?

No. Budgetary control must rely on inputs to discharge the prime accountability of financial break-even, which for an NHS Board is now on income and expenditure, rather than a cash basis. The development of any Outcome Budgeting measure is supplementary to the basic system of budgetary control which must remain effective and intact to discharge corporate governance accountabilities of NHS Boards, and therefore the Scottish Parliament.

### 5 Outcome Budgeting Impact on Identification + Realisation of Policy Aims

The impact on policy has been the recognition of the importance of moving towards health outcome indicators as part of the health plan preparation and development. This includes the identification and implementation of developments and investment opportunities to improve health outcomes. It must be stressed that this is only one policy tool used and could not be used in isolation.

### 6 Scope for Outcome Budgeting within NHS Highland?

There is very limited scope to move to accountability through Outcome Budgeting. The NHS Board is accountable to the Scottish Executive and Scottish Parliament for the delivery of specific targets relating to inputs and outputs - e.g. financial breakeven and waiting list targets.

### 7 Would Outcome Budgeting improve Monitoring + Accountability in NHS Highland?

No. The risks of performance measurement against uncertain outcomes are too
great and could lead to corporate governance and accountability problems. The dangers include focus on the process and accuracy of outcome measures, rather than the data or the explanation of any material variances.

8 Impact of Scottish Executive moving to Outcome Budgeting?

The movement to Outcome Budgeting is not supported as there is enough change and risk in the system at this moment, and any increase in this could cause financial and operational de-stability. The report’s focus on single range outcomes is also somewhat simplistic and fails to recognise identifiable and justifiable variations around such issues such as unit costs, which can rise from the delivery of services in remote and rural areas.

9 Specific Policy Targets + Allocating Resources = Unexpected Outcomes?

Yes - as above. It could de-stabilise service delivery in fragile rural economies if material cost variances are not reflected in the allocation and monitoring of financial resources.

10 Wider Adoption of Outcome Budgeting in the Future?

No. In the short term the move towards a theoretical model should not be undertaken at the expense of the ongoing delivery and development of healthcare services. Outcome Budgeting is a useful tool in service planning and monitoring which should not be the key measure of accountability.

11 General Comments

The experience from elsewhere and the embryonic nature of Outcome Budgeting means that significant development work is required before the system can be used as a major measure of accountability of service delivery.

I trust that the above points answer the questions in your report which provided an interesting read. As I have identified above, the NHS Board is committed to improving accountability not only to the Scottish Parliament, but also the population of the Highlands for whom healthcare services are delivered. However, as you will be aware there are many risks and uncertainties in the delivery of healthcare services and I would not wish to see these increased by a move towards a theoretical based system of accountability which your report indicates has not been successfully implemented elsewhere in the world.

Yours sincerely

Dr R Gibbins
Chief Executive
Moving to Outcome Budgeting  
Response by Highland & Islands Enterprise

Introduction

The Finance Committee of the Scottish Parliament published independent research by Norman Flynn entitled “Moving to Outcome Budgeting” and invited comments on specific issues raised within the report from a broad spectrum of public sector organisations. This paper summarises the response from Highlands & Islands Enterprise.

Specific Questions & Answers

The following offers a response to the specific questions raised by the Committee:

1. To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

The report has made a good case for the use of Outcome Budgeting in demonstrating the theoretical benefits available from such an approach. However, the practical examples of how it may work are not made so well. A number of fundamental issues need to be addressed in translating theory into practice. In particular items such as defining the outcome, which can often be confused with an output, and identifying a clear link between the resources provided and the outcome achieved, which can be difficult, with outcomes potentially emerging several years after the input. Finally, the outcomes themselves can be the result of the combined impact of several different agencies, and the specific contribution of each agency difficult to identify and quantify.

The potential benefits, if the practical problems can be resolved, will lead to increasingly effective organisations and encourage multi-agency working. This will also be supported with a move towards longer term planning and target setting which will provide stability and strategic clarity for the public sector.

2. On the evidence presented in the report do you feel that outcome budgeting, as opposed to input or output budgeting, represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?

Outcome budgeting represents an important element of measuring organisational effectiveness, however, organisational efficiency and control must also be maintained by input budgeting, which represents the real resources invested by that organisation in achieving the outcomes. In terms of internal control, it would not be advisable to move away from the input budgeting, but rather a link between inputs and outcomes needs to be derived. This is particularly important in the situation where long term objectives have been identified and outcome milestones may be difficult to
identify, whereas input budgets would, at minimum, enable the continuing investment to be monitored and managed.

3. **To what extent has outcome budgeting being identified by your organisation?**

The recent launch of Smart Successful Scotland – Highlands & Islands Dimension has provided an opportunity for HIE to establish some very specific outcome indicators and link these to specific longer term objectives, project outcomes and consequently resource inputs. One of the main problems encountered and currently being reviewed is the fact that a specific investment in a single project may in reality result in several outcomes being achieved, however, it is not possible to discriminate between the specific financial investment and each of the outcomes. This does, however, represent a significant improvement on previous targets, where each financial project recorded only one specific target outcome. As a result the true benefits and outcomes of that specific investment were under-recorded. The revised method, now adopted, will resolve this historic problem.

4. **Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?**

The system is currently in its infancy within HIE, therefore until experience can establish a more robust link between investment inputs and specific outcomes the historic basis of input budgeting is being maintained. Indeed, it may be that input budgeting is always maintained, representing a bottom up approach to budget setting, whilst Outcome Budgeting is used to provide the top down approach based on strategic outcomes. The causal effect, once it is more fully understood, could then be used to prioritise scarce resources.

5. **What effect, if any, has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?**

The project is at an early stage, therefore policy impact is difficult to assess, however, HIE is now reviewing its product portfolio and can link this to both client needs and its own specific targets. The reduction in overall targets has enabled the range of products to be reduced, whilst widening their applicability. This has improved both HIE efficiency and effectiveness and simultaneously reduced the amount of bureaucracy encountered by the client.

6. **If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvement in the way policies and objectives are pursued?**

Not applicable, see above
7. Would a move to outcome budgeting improve monitoring and accountability in your organisation?

In general, yes, provided appropriate links to resource input and causal relationships can be derived. HIE has had a range of outcome targets for a number of years. However, the relationship to inputs has proved difficult to establish for the reasons outlined above. Furthermore, the limitation of only being able to attribute one outcome target to a specific project, when in reality, progress towards several outcomes may be achieved, has not supported this as an appraisal system. Several fundamental issues therefore need to be resolved before this can be identified and used as an effective Outcome Budgeting system. In overall terms, Outcome Budgeting should be welcomed as it will also encourage and facilitate greater partnership working as the outcomes identified in many instances will inevitably relate to the combined effort of a number of different agencies.

8. What effect, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

To some extent, through Smart Successful Scotland – Highlands & Islands Dimension, this has already commenced, in that the outcomes have now been identified, albeit that the link to inputs and resources have not yet been established and quantified. The key benefit would be the move away from short term input targets to long term outcome targets and this should simplify the monitoring process and focus on the effectiveness of the organisation and its ability to work in partnerships with other agencies. This would be a welcome development.

9. Do you feel that setting specific policy targets – and allocating resources according to these – may lead to unexpected outcomes?

This is inevitable at this stage in the development of outcome budgeting since the causal relationships are not yet understood. Unfortunately, the unexpected outcomes at this stage of evolution in the process may be both positive and negative.

10. Do you think that it is likely that outcome budgeting will be more widely adopted in the future?

Yes, but significant research is required by organisations adopting this approach to understand the casual relationships between both their own resources and impacts on outcomes and that of other organisations also. This will inevitably require maintaining both the traditional input budgeting and the outcome monitoring to provide the information and evidence to understand and develop these relationships. As a result, it is unlikely that this could be introduced and applied with confidence in the short term.

11. Are there any other comments you wish to make?
HIE would welcome the opportunity to work with the Scottish Parliament to develop this concept further and establish how it could be introduced in a practical way in the future.

Forbes C. Duthie  
Director – Corporate Services  
Highlands & Islands Enterprise  
August 2002

LANARKSHIRE NHS

Dear Sir

With reference Mr Des McNulty’s letter dated 18 June 2002 please see comments below on Outcome Budgeting.

1 If Outcome Budgeting was clearly aligned to accurate costing systems, then it would be possible to more easily identify how resources could be targeted to maximise the clinical quality outcome.

2 Whilst the introduction of Outcome Budgeting may be a laudable improvement in the allocation of resources, the Health Service has been significantly effected by political considerations which has a great tendency to distort priorities and the allocation of funding.

3 The way in which the NHS has been historically funded has tended to a number of national priorities, i.e.: Coronary Heart Disease – targets are set on a national basis, and do not reflect local circumstances. Therefore, the benefits that would accrue from Outcome Budgeting would not directly relate to local services. Often this money is ring fenced and needs to be tracked separately. However, unless it is recurring, staff recruitment becomes a problem.

4 The point is already made in the paper that the traditional approach to allocating funding across government programmes is incremental, i.e.: attention focuses on the additional resources allocated for particular initiatives or priorities and does not examine the value for money achieved from the core funding.

5 The success of any Outcome Budgeting approach would be dependent upon recognising the demand features of the NHS – too many aspects seem to be infinite. Emergency Admissions have grown constantly every year, new treatments/procedures are introduced regularly and Delayed Discharges can cause significant cost pressures. In all these cases, the Acute sector is home of last resort, they never close and all of this leaves an open ended series of cost pressures.

6 A number of Outcome Budgeting approaches have been tried for the Health Service over the years, e.g.: management budgeting. These have never had any real success and the traditional approach of setting budgets based on staff, premises etc, as a method of allocating resources within health organisations has continued.
Finally, within the NHS, other agencies can impose costs without the supporting funding, e.g.: NICE, CSBS, Infection Control, drug approval, etc, all have a cost impact but not necessarily the support funding.

Yours sincerely

John J Owens
Chief Executive
Dear Mr. McNulty

Firstly I would like to apologise that this response will reach you after the 17 August deadline.

Our comments are as follows:

1) To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

I feel that the report does not necessarily make the case for more extensive use of outcome budgeting, but rather a focused approach with regard to the practical principles of relevance, reliability and consistency across the business of the Scottish Parliament.

2) On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?

On the evidence presented, I feel that outcome budgeting would be a contributory part of the overall picture in terms of performance and resource reallocation. Given the state of information systems and the current focus on outputs, a staged approach would be best adopted. As a consequence, the measurements used would be a combination of inputs, outputs, and outcomes. For some areas, inputs and outputs could actually be more meaningful at the macro level. The advantage of an outcome budget is that it would be directly attributable to what was intended to be achieved. However, some of the intangibles that you would expect to achieve at government level would not necessarily be easily quantified and defined. Furthermore, they may not be directly linked to changes in the allocation.

3) To what extent has outcome budgeting been adopted by your organisation? Where appropriate, what have been the advantages and disadvantages?
Outcome budgeting has not been extensively adopted by the organisation currently. There are specific output measures that have been used as a proxy e.g. Activity targets for different specialities within Health and associated lengths of stay. The advantages of using this are that the alternative substitute measures are more easily obtained and measured than pure outcome measures. These output measures can then be mapped to outcome measures. Furthermore, a large range of outcomes in respect of health gain would be transparent over a long time horizon, and therefore the timing of these targets can prove more problematic.

4) Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?

Not applicable.

5) What effect, if any has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?

Work had been undertaken within the area of Older People community services to map strategic outcomes to a relevant range of definitions and to identify the key measures from the activities which meet the definitions and hence the outcomes. This piece of work is being undertaken as part of an integrated process across the overlapping Health Service Sector areas (e.g. Acute Services and Community Services) and the activities where outcomes are delivered with partners from other organisations e.g Local Authorities.

6) If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvements in the way policies and objectives are pursued?

Focus on high-level outcomes articulated directly to objectives and policies will give a greater focus on strategic goals on an ongoing basis. However the key challenge is how this maps down to individual activities.

7) Would a move to outcome budgeting improve monitoring and accountability in your organisation?

If this was achievable in certain areas, within a short space of time, then yes.
8) What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

This would entail additional measures being added to the performance assessment framework. Again, depending on what outcome measures were used, a judgement would need to be made on their relevance and their reliability in respect of local activities.

9) Do you feel that setting specific policy targets – and allocating resources according to these – may lead to unexpected outcomes?

There is no evidence to suggest that this might be the case currently, if outcomes are appropriately selected and criteria linked to agreed strategies which are used to identify areas for investment.

10) Do you think that it is likely that outcome budgeting will be more widely adopted in future?

I think it that it is appropriate that focus is maintained on policy objectives, and accordingly, this should be emphasised through the performance assessment framework, to the extent that it is relevant, reliable and achievable, within an appropriate timeframe.

I hope you find this helpful. Please do not hesitate to contact me should you require clarification on any point.

Yours sincerely,

JOHN MATHESON
Director of Finance
Scottish Enterprise response to the Finance Committee’s consultation on outcome based budgeting

Introduction

This paper sets out the response of Scottish Enterprise to the consultation process on outcome budgeting being undertaken by the Scottish Parliaments Finance Committee. Scottish Enterprise is broadly supportive of the principles of moving towards outcome budgets and would welcome the opportunity to explore this further. It builds upon recent changes within the planning and performance management of the Network’s operations, where greater emphasis has been placed on outputs, rather than inputs.

This paper responds to the questions set out in the consultation exercise, but Scottish Enterprise would welcome the opportunity to work further with the Committee (and our Sponsoring Division in the Scottish Executive) to develop this further.

The Report

The report makes a strong case for the more extensive use of outcome budgeting and, on the evidence presented, this represents the best way forward. However, it is unclear if alternative approaches have been explored that might be worthy of further consideration (For example, see the work of the ‘Beyond Budgeting Round Table’1).

The introduction of outcomes based will require enhanced clarity around policy objectives and the integration of outcomes between related areas of policy. Considerable progress has been made towards this with the introduction of ‘A Smart, Successful Scotland’ (SSS) and its associated (outcome) measurement framework2.

The advantages of the proposed approach appear to be:

- Encourage the strategic direction of economic development in Scotland to be based on longer term economic impact rather than short term issues such as expenditure;
- Support the integration of intervention and joined-up policy making as the achievement of outcomes will require a number of contributing factors;
- Provide a further tool in helping to operationalise strategic intent, (this is especially true for Scottish Enterprise in light of the SSS measurement framework;
- Enable local flexibility in delivery to support consistent national priorities.

1 http://www.cam-i.org/bbfiles/BBRTNA_Full_Proposal.pdf
However, it would also seem appropriate to retain some element of existing approaches (especially in the short term) to ensure greater accountability of spend is retained. In general terms, it is felt that:

- Managing ‘inputs’ can encourage ‘economy’;
- Managing outputs encourages ‘efficiency’; and,
- Managing outcomes encourages effectiveness.

Taken together and with the appropriate degree of emphasis, an integrated approach would result in the appropriate level of management. It would be helpful if further consideration is given to the detailed, practical proposals for taking this approach forward and Scottish Enterprise would welcome the opportunity of discussing this further.

Scottish Enterprise Experience

Scottish Enterprise has increased its focus on the planning and performance management of outputs, rather than inputs. (See appendix 1). The move to outcome based budgeting is the next logical step in this process.

Our experience has identified a number of positive aspects including:

- Focus being placed on what we ‘achieve’ rather than what we ‘do’
- Local flexibility in terms of delivery against a consistent set of Network outputs
- Staff being able to make clear links between activity and strategy
- Stakeholders seeing a clearer link between inputs and outputs

Our experience also taught us the following:

- Agreement on the nature of targets requires time and investment in evaluation, to avoid a simplistic approach.
- The level of targets need to be set carefully – realistic enough to ‘stretch’ performance.
- Output targets must be introduced within the context of outcomes to avoid a simplistic approach to ‘chasing the numbers’: the proposed principles of outcome based budgeting address this.

Applying this, there are clear lessons for the proposed approach to outcome based budgeting:

- There is a time lag between initial expenditure and final outcome in many aspects of economic development, so management against outcomes will need to undertaken with knowledge, care and a strong degree of trust. (For example, a typical annual planning process and timetable may no longer be appropriate).
- The cause and effect relationships between inputs, outputs and outcomes can be difficult to understand, the on-going development of robust
economic analysis and evaluation evidence will need to continue, along with robust economic appraisal;

- Economic development activity is vulnerable to economic factors beyond our control, so outcome based budgeting will need to set within the context of a wider measurement framework, to which there is widespread political endorsement to prevent a return to more short term analysis.

Beyond economic development, outcome based budgeting would benefit from a ’joined up’ hierarchy of outcome measures for all public agencies, to promote joined up responses.

In summary, the paper offers great potential to take forward the management of public sector intervention, generally, and the work of Scottish Enterprise, specifically. It would be appropriate to consider the detailed actions required to take this forward and consider all of the implications of doing so.

Appendix 1

Scottish Enterprise Network: Planning and resource allocation

The Scottish Enterprise Network (SE) delivers economic development services through its structure of national and regional bodies (Scottish Enterprise National (SEN) and the Local Enterprise Companies (LECs)). Its work is wide ranging and involves the integration if many different components. This must vary across the country to respond to different economy circumstances, which makes planning for future activity a complex task.

Objectives of SE’s planning and resource allocation

In recent years, the SE Network has moved towards operating as a true “network” and previous approaches to ‘bidding’ for funds have been replaced by the planned allocation of resources to meet national strategic objectives, whilst still allowing for local flexibility. This has removed unnecessary and resource intensive competitive processes, replacing them with Network participation and collaboration.

This has been undertaken to achieve a more overt alignment of the Network’s resources with its strategic intent – as set out in A Smart, Successful Scotland. It has also helped to shift focus from “inputs” to “outputs” and to see a ‘reasonable’ distribution of economic development activity across the whole (lowland) Scotland.

Processes supporting the planing and resource allocation

The publication of A Smart, Successful Scotland, along with the Joint Performance Team measures, has provided not only clear direction, but also quantifiable economic indicators towards which SE can target its activity.

An internal planning process has been developed where representatives from across the Network take this context and develop ‘strategic guidance’ for the Network for the operating year ahead. This guidance:
- Indicates the types of projects and programmes required to put the strategy into action – “what” should be done;
- Sets out the changes emphasis required in delivery – “how” things should be done, and – importantly,
- Establishes the types of output targets that the Network will aim to deliver for the following year – “how much” the Network should deliver for Scotland.

This guidance is prepared in an open way, with opportunity for peer scrutiny. It is then presented as a ‘challenge’ to each business unit in the organisation, seeking local contributions to the total national-level targets.

The process has been enhanced for 2002/03 by utilising a ‘balanced scorecard’ approach where the Network plans not only its performance against the outputs required to deliver the strategy, but also the activity which drives that performance. This relates to the relationships that we require to build with customers and partners; the business processes delivered to achieve those relationships and the development of the Network’s human resource required to deliver these services. It allows for the planning of our more qualitative or ‘softer’ measures, such as customer satisfaction.

Instead of ‘bidding’ for resources to achieve the outputs articulated in this guidance, broad criteria have been developed that describe the potential for each LEC area to contribute to the strategy (below). These are used to provide an initial distribution of available resources to each area. For example, if a LEC area has 10% of Scotland’s business starts (new VAT registrations) and 10% of Scotland’s Social Inclusion Partnership Area population it would be reasonable to expect that it would build its plans utilising about 10% of the Network’s available resources.

It should be noted that whilst the Network utilises the resources allocated by the Scottish Executive, additional resources are generated through European and other partner contributions to projects and through investments and the disposal of property assets. (The latter diminishing rapidly in future years).

In response, each LEC is expected to deliver results that also relate to these criteria.

This approach ensures a broad distribution of resources across the Network and a process of iteration between LECs and the SE Board ensure that outputs are maximised for any given level of inputs.

This process is aimed at “programme” activity that is broadly similar in each operating area, such as support for businesses, the delivery of skills and learning, etc.

A further set of “project” activity that has a more direct national impact is also supported through the planning and allocation process. Scottish Enterprise has supported the development of key national projects such as Pacific Quay,
Lomond Shores, the Alba project and support for key clusters. Since this work is required to address market failures manifest at a national level, it would be unreasonable to expect the local business unit to divert their resources to achieve their implementation, so additional resources are added to LEC budgets for such projects or they are managed by SEN teams.

Resources are also added to address severe negative shocks to the economies of LEC areas, such as those rural areas that experienced the impact of Foot and Mouth or areas with severe job losses, such as Clackmannanshire and Falkirk.

The result of this programme and project planning is seen in the accumulation of a wide set of activity and outputs presented in ‘operating plans’. Combined, these form the published “Network Operating Plan” – that is agreed with the Scottish Executive.

Performance against this plan is then managed during the course of the operating year and resources managed across the network to ensure that outputs are maximised.

Our Ref: 2002239

Des McNulty MSP
Room 4.2 PHQ
The Scottish Parliament
Edinburgh EH99 1SP

12 August 2002

Dear Mr McNulty

Moving to Outcome Budgeting

Following your correspondence dated 18 June 2002 regarding the research entitled “Moving to Outcome Budgeting” produced by Norman Flynn I have detailed my response below.

SEPA has done extensive work to develop an outcomes approach to performance management and has produced a corporate plan based firmly on outcomes (see enclosed). SEPA’s future corporate plans, and internal planning work, continue to expand and embed our outcomes work. SEPA is
clearly engaged in this process and there is corporate and board support and interest for the overall approach.

Regarding outcome budgeting specifically, SEPA is working to establish some form of “outcome budgeting” by learning from the experiences of others and planning how best to establish and use outcome budgeting. From our initial research it would appear that a measured, long-term approach is required.

SEPA has worked hard to develop its outcome budgeting approach and would like to work closely with your committee should you wish to progress with plans regarding outcome budgeting. If you feel it appropriate, we would be pleased to meet with you and your team to engage in further discussions.

Responses to specific questions are as follows:

Q1 To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

Outcome budgeting is the term used to describe a system that is defined as “a budget process that makes resource allocation and control decisions based on the results of expenditure.” (see “moving to Outcome Budgeting”, page 1) However, this title conjures up images of the traditional budgeting process where expenditure targets are set using historical information. Outcomes’ budgeting is quite different to this.

The report has made a good balanced case for more extensive use of outcome budgeting. It has made clear the perceived benefits associated with the process and detailed the involvement required from all levels of the organisation to implement such a scheme. However, it also reviews the potential problems that can arise during the planning and implementation process. On the basis of the report’s findings, SEPA does consider outcome budgeting as a feasible potential option, although it would ensure that this process ran concurrently with existing budgetary processes. The reason for this is that outcome budgeting does not provide management with accurate cost analysis or audit trail, which is essential to maintaining strong and robust financial management. Another concern highlighted in the report is the time required to implement the process, and obviously there are some important human resource and cost issues associated with this. On a more positive note, if successfully implemented, it will provide the public and stakeholders with an accurate picture of the costs associated with individual outcomes, and allow SEPA to potentially allocate funds to maximise the sum of the outcomes.

In addition to the research produced by Norman Flynn, we have conducted our own fairly extensive research into setting outcomes and some research on outcome budgeting. It has provided conclusive evidence regarding setting outcomes, but we are yet to find clear evidence of an organisation that has been through the implementation process associated with outcome budgeting, as this can only be demonstrated over a long time-scale (or are organisations finding it too difficult?) A concern for SEPA is that the outcomes we have set can be difficult to measure because they are difficult to quantify. Another
issue is that the outcomes we have set are long term and therefore quantifying their performance over the fiscal year would produce a distorted picture. It may be that if we are to move down the outcome budgeting route we would adopt the South Australian model whereby, “the budget documents and process link overall aims and outcome aspirations to the outputs but the link is not so firm as to be able to directly connect the expenditure of money on outputs to the achievement of outcomes. It is however possible to see clearly which outputs are purchased for what purposes. This implies a disciplined thought process to inform the outcome aspirations with what the government can do to achieve its goals, and inform the people running the services about what the ultimate purposes of their activity are.” (Moving to Outcome Budgeting, Pg 17)

Q2 On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control? What do you see as the advantages and disadvantages of outcome budgeting?

SEPA does not believe outcome budgeting to be the best form of budgetary control as both in the report and as a result of our own research we understand that the data produced will not provide a robust enough accounting system, or produce a clear audit trail which are essential elements to ensuring accurate financial control. If SEPA is to adopt outcome budgeting, then it will ensure that it is used in tandem with our existing reliable budgeting systems. The principle of outcome budgeting is faultless and outcome budgeting comes into its own when used to communicate information regarding the deployment of funds for specific outcomes. It allows organisations to clearly demonstrate the benefits of money being spent in specific areas or on specific projects, making the organisation more accountable to its public and its stakeholders. It is however our perception that the disadvantages associated with outcome budgeting include a lengthy implementation process, and while advantageous in terms of greater transparency, this could also complicate the decision making process.

Q3 To what extent has outcome budgeting been adopted by your organisation? Where appropriate, what have been the advantages and disadvantages?

As yet, SEPA has not adopted outcome budgeting. We have set a series of environmental outcomes within our corporate plan and are now discussing the steps we plan to take next.

Q4 Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?

N/A
Q5 What effect, if any, has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?

N/A

Q6 If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvements in the way policies and objectives are pursued?

There is scope within SEPA for a move towards outcome budgeting, although there is genuine concern that the implementation process will be drawn out. Initially, we would plan to be selective in the areas where we implement outcome budgeting, concentrating on the outcomes where the resource link is most easily seen.

Outcome budgeting will help the organisation to focus on the real world changes that can be achieved through this process and demonstrate where funds are best channelled and where improvement is required. It will allow excess funds in one area to be visible and enable them to be moved to another. This will increase SEPA’s productivity and effectiveness, and in turn result in a better environment for Scotland.

Q7 Would a move to outcome budgeting improve monitoring and accountability in your organisation?

This is a difficult question to answer at this stage. SEPA would suggest that a pilot be conducted initially to gauge the impact of outcome budgeting on the organisation and to assess whether accountability was enhanced.

Q8 What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

This potentially could be a positive step, although outcomes would need first to be set for Scotland. If the Scottish Executive were to move to outcome budgeting, then SEPA would need to follow suit as, otherwise, the breakdown and reasoning behind SEPA’s funding would be too complicated.

Q9 Do you feel that setting specific policy targets – and allocating resources according to these - may lead to unexpected outcomes?

Outcomes must be set prior to targets, otherwise the principle behind outcomes has not been adopted. SEPA’s “Performance Hierarchy” attempts to do this (see our Corporate Plan 2002/03, pg 6.)

Q10 Do you think that it is likely that outcome budgeting will be more widely adopted in future?

Not sure that SEPA is in a position to answer this question and will await the result of this consultation.
Q11 Are there any other comments you would like to make?

In essence SEPA believes that outcome budgeting could potentially provide better visibility regarding the impact of its actions across the spectrum of the outcomes we have set. However, we still need to discuss further the impact its implementation would have on the organisation, and have a clear understanding of the benefits we can expect and if these benefits add value to our management processes and how we are perceived by the public and our stakeholders.

Yours sincerely

John Ford
Director of Finance and Corporate Support

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Shetland NHS Board

Dear Mr McGill

Outcome Budgeting

Miss Sandra Laurenson, the Chief Executive of Shetland NHS Board has asked me to respond to your invitation to give our views on the research paper on outcome budgeting. Having eventually found the paper on the web, I have to say that I found it well written, interesting and thought provoking, and we are grateful for the opportunity to comment.

In the first place I should say that the general principle of outcome budgeting is one that we feel merits serious consideration and most of the reservations which I express below are essentially around the difficulties associated with its practical implementation, particularly in relation to small organisations such as Shetland NHS Board.

1. The report has made a strong case for the use outcome measurements in the budgeting process, but is much less convincing around the use of outcome measures to determine the allocation of resources, principally because of the difficulty of linking resource use to outcomes.

2. No, or at least not at local level. Budget managers rarely have the same sort of control over outcomes as they do over either inputs or even outputs. They therefore not only feel very vulnerable, but it is also very much
easier to justify or find excuses for overspends. The converse is that they may become even more risk averse than under the current system. At a higher level outcome measures could be very helpful provided they were used in a system which provided budget managers with a high degree of flexibility in the use of resources.

3. We have used outcome measures in setting service level agreements with some providers. However we have not set any budgets using these, principally because we have not been in a position to assess the level of resources needed to provide the service without first measuring the inputs required.

6. Very little. In our experience the small numbers involved in an organisation the size of Shetland NHS Board means that the use, for instance, of statistical formulae based on assumptions linking resource use with either need, outputs or outcomes are never robust or sophisticated enough to cope with the particular issues surrounding small budgets. For instance we remain very doubtful about the validity of the Arbuthnott formula as it applies small island boards although we have no reason to doubt that it works on an all Scotland basis. All our actual local budgets are therefore based on inputs, although of course we are always aware of both outputs and outcomes in our strategic planning.

7. Following from my earlier comments the answer must be no. However it must be realised that in an organisation of our size, with its extremely short lines of communication and very flat management structure, monitoring is a much less formal process than would be found in large health organisations.

8. It could have very serious implications, particularly if it was based on national assumptions about the level of resources required to achieve particular outcomes. It would require much more sophisticated knowledge of the relationship between cost and outcome than is currently available before it would be possible to devise a resource allocation formula which took account of the costs of achieving a particular outcome in Shetland, as opposed to Edinburgh.

10. It may well become more widespread, and could well be appropriate at the highest level, but the evidence in the report certainly identifies many practical problems, and the question does need to asked whether the level of realised benefits would be commensurate with the level of resources required to implement the process, including the information requirements.

Yours sincerely.

David Eva
Director of Finance
RESPONSE BY SOLACE TO THE SCOTTISH PARLIAMENT FINANCE COMMITTEE

INTRODUCTION

SOLACE welcomes the opportunity to comment on the document ‘Moving to Outcome Budgeting’ and commends the comprehensive and overarching nature of the research.

This response by SOLACE has been arranged in three sections, the first covering key general points with regard to outcome budgeting, the second outlining how outcome budgeting in local government could be progressed and the third answering the specific questions asked by the Finance Committee.

1. KEY GENERAL POINTS

Principle of Outcome Budgeting

SOLACE supports the principle of greater focus on the outcomes achieved from the use of resources and agrees that the concept of ‘bundling’ of outputs to produce a better set of outcomes should be pursued rather than individual selective initiatives.

Limitations to the scope of Outcome Budgeting

SOLACE is firmly of the view that outcome budgeting is not a replacement for or alternative to input and output budgeting. Instead outcome budgeting is best viewed as a supplementary tool to assist with resource allocation and control decisions by incorporating outcomes into the planning process.

Statutory Financial Control Responsibilities

In developing outcome budgeting it is very important that the basics of accounting control and good corporate governance are not neglected. Indeed councils have a statutory responsibility under the Local Government (Scotland) Act 1973 to make arrangements for the proper administration of their financial affairs. The auditing and performance management framework underlining this responsibility is largely carried out via assessments based on input budgeting measures.

Political dimension to resource allocation decisions

As outcome budgeting is concerned with allocation of resources over the medium to long term this is realistically the time frame necessary for the delivery and evaluation of the sort of strategic policy initiatives outcome budgeting would relate to.
It is important to be aware that such time-scales do not always coincide with political reality or necessity and it is likely that there will require to be room for manoeuvre in any outcome budgeting system to take account of short term political considerations.

**Community Planning**

SOLACE would emphasise that the community planning process should be central to outcome budgeting, particularly the development of appropriate arrangements for joint agreement on suitable outcome measures. Indeed, the advent of community planning provides an opportunity through focused joint working to achieve local solutions to 'kick start' the outcome budgeting process.

**Challenges in implementing Outcome Budgeting**

There are major challenges to be overcome in implementing outcome budgeting and these can be categorised into three main areas – measurability, causality and time.

Because of these factors SOLACE agrees with the Finance Committee that moving towards outcome budgeting will necessarily be a long term process as evidence of causality and consistency between years is vital for a credible outcome budgeting framework to be established.

In addition the cultural change involved in introducing outcome budgeting should not be underestimated. This is evidenced from the examples from other countries where the main lesson seems to be that it takes time, patience, focus and commitment to develop outcome based budgeting systems. Taking all the above factors into account a process of evolution rather than revolution would seem to represent the logical way forward.

**2. PROGRESSING OUTCOME BUDGETING IN LOCAL GOVERNMENT**

**Outcome Agreements**

A joint SOLACE / COSLA working group prepared a report earlier this year that set out a detailed proposal on the development of a ‘Scottish Model’ for outcome agreements between the Scottish Executive and local authorities. In considering the development of outcome budgeting within local government SOLACE believes that outcome agreements can play a pivotal role, and that the following points are particularly apposite in this regard.

The research paper by Norman Flynn focuses on the establishment of outcome agreements between the Scottish Parliament and Scottish Executive, but these agreements are realistically only achievable at a strategic level given that service delivery is provided by third parties.

It is thus vital that in the subsequent drilling down of these strategic outcomes by the Scottish Executive to a local level there is ownership of outcomes by service providers. In furtherance of this objective SOLACE supports the
development of local outcome agreements produced by an agreed process. This would start with a single outcome agreement that operates at national and local levels, and which reflects agreement between the Scottish Executive and local authorities on shared national priorities.

The next stage would be a better balance between national and local priorities and recognition of the role of the community planning process in acting as the bridge between these priorities. To achieve this balance COSLA and the Executive would agree a menu consisting of a limited number of outcome indicators linked to each of the shared priorities. Community planning partnerships would then select appropriate indicators for their area from this menu.

Taking this point further SOLACE would stress that outcome budgeting and associated indicators should be developed in co-ordination with existing quality indicators. Outcome budgeting should not result in an additional layer of targets that cause confusion amongst staff tasked with delivering the outcomes.

The shared national priorities and associated outcome indicators would provide the framework in which councils and their community planning partners would develop local outcome agreements. This approach would facilitate greater use of outcome budgeting; produce a better balance between national and local priorities; allow for greater flexibility in the use of resources in a way which reflects those priorities; and most importantly, would provide a mechanism for delivering innovative and tangible improvements to services. Crucially, how agreed outcomes were achieved would be decided by local planning partners choosing what they consider to be the most appropriate means, rather than every organisation having to follow rigid central direction regardless of local circumstances.

SOLACE notes with interest progress being made in this area in Wales including the Programme for Improvement, whereby a small number of agreed outcome indicators have been identified and councils have undertaken to be judged against achievement of these outcomes. A key element of the Welsh system has been the substantial removal of ring-fencing and a rationalisation of the volume of initiatives.

**Initiatives Culture**

With regard to initiatives SOLACE is concerned that concentration on high profile initiatives and outcomes can severely distort and damage the ongoing provision of core services, particularly if these core services consequently receive reduced funding as a direct result of funds being redirected to or earmarked for new initiatives.

The current over emphasis by the Scottish Executive on new initiatives is a significant barrier towards the introduction of an outcome budgeting process that would enable mainstream funding to be aligned with agreed outcomes. SOLACE supports outcome indicators that reflect the full spectrum of ongoing service provision rather than indicators limited to specific new initiatives.
A key point in this regard is a realistic assessment of the outcomes that can and should be achieved within existing overall funding levels. Following such an assessment it is essential that sufficient resources are distributed to a local level to ensure that local outcomes can be achieved. Only after this base position has been established should consideration be given to enhancement of outcomes, along with the additional resources that this would require.

Reduction of hypothecation and ring-fencing of resources

SOLACE is strongly of the view that outcome budgeting should not be backed up by ring-fencing of funding and welcomes the recognition in the paper that ring-fencing can lead to a concentration on incremental funding to the detriment of the essential scrutiny of the core budget.

For example within the Education service monies have been set aside under hypothecation and ring-fencing regimes for targeting to specific outcomes, primarily based on a national agenda. This does not provide for a wholly holistic approach to local education provision and leads to a disproportionate focus on initiatives rather than broader strategic planning and educational considerations. The same principle applies to ring-fenced funding for social inclusion and environmental protection.

3. RESPONSES TO SPECIFIC QUESTIONS FROM THE FINANCE COMMITTEE

The following are the SOLACE responses to the questions asked by the Finance Committee:

1. To what extent do you feel that the report has made the case for more extensive use of outcome budgeting?

- The research highlights the potential benefits of greater use of outcomes within the planning and budgetary process, but also quite correctly emphasises the difficulties associated with explicitly linking resource allocations to the results of expenditure. It is also clear from the research that more extensive use of outcome budgeting is a longer term objective.

2. On the evidence presented in the report, do you feel that outcome budgeting (as opposed to input or output budgeting) represents the best possible form of budgetary control?

- The different forms of budgeting should not be viewed as mutually exclusive options. SOLACE would contend that it is not a matter of any particular form of budgeting being better, but rather of choosing an appropriate mix of budgeting techniques to maximise organisational performance and achieve optimal use of resources.
- The report makes the point that rather than being an alternative form of budgetary control, it is possibly best viewing outcome budgeting as a supplementary form of control. Any attempt to move to outcome
budgeting should, therefore, proceed alongside existing forms of control where the emphasis is on inputs and outputs.

What do you see as the advantages and disadvantages of outcome budgeting?

- Potential advantages include: greater focus on the ultimate objectives of expenditure; improved decision making; concentration on the results of core service provision; reduction of ring-fencing of funding based on inputs; clear demonstration to taxpayers of the outcome of public spending.

- Potential disadvantages include: the major time and resource commitment involved; the creation of an additional layer of bureaucracy; difficulty in measurability of outcomes and establishing causality; the time frames involved in assessing results (considerably longer than a single parliamentary or council term).

3. To what extent has outcome budgeting been adopted by your organisation?

- A number of authorities are currently prioritising the implementation of output budgeting, whereby considerable enhancements have been made in the quality and scope of budgetary information that is available including identification of the outputs of council expenditure and their unit cost.

- In addition, many councils have taken steps to link budgetary decisions and outputs with strategic objectives, and to redirect resources to the attainment of specific outcomes.

   Where appropriate, what have been the advantages and disadvantages?

- The advantages of greater use of outcomes include forcing clarity about exactly what councils are trying to achieve and providing a framework in which competing budgetary pressures can be judged. This allows resources to be redirected to projects that are clearly aimed at contributing towards the attainment of the stated outcomes.

- A major disadvantage is that many of the outcomes, such as improving the health of citizens, can only be achieved in the long term. This makes short term monitoring of performance difficult to achieve.

4. Is there now a more efficient and effective system of budgetary control in place as a consequence of the introduction of outcome budgeting?

- The introduction of processes that link budgetary decisions with objectives and outcomes has not replaced specification of budgets in terms of inputs and outputs. As mentioned previously all councils are statutorily obliged to
account for budgets and performance in a way that would prevent them from abandoning specification in these terms. Therefore the introduction of outcomes cannot be judged in isolation from other forms of budgetary control, but as a supplementary process to these.

- Wider incorporation of objectives and outcomes should lead to councils operating in a more effective manner, although the efficiency of the process is less easy to judge especially in the short term.

5. What effect, if any, has it had on the identification and realisation of policy aims? What other changes has it led to in your organisation?

- Introduction of objectives and outcomes into the budgetary process will generally result in greater focus in terms of identifying policy aims, and prioritising amongst these aims.

6. If your organisation has not adopted outcome budgeting, what scope do you think there is for it to move towards such a system? Do you feel that such a move would lead to improvements in the way policies and objectives are pursued?

- In the short term SOLACE recognises that scope to move towards extensive use of outcome budgeting is limited but supports working towards agreement between local government and the Scottish Executive on development of outcome measures. This should be progressed via a partnership approach over a reasonable time period.

- Notwithstanding the above SOLACE supports the continuing process by which local government is incorporating outcomes into the budgeting process as a means of securing improvements in the way policies and objectives are pursued.

7. Would a move to outcome budgeting improve monitoring and accountability in your organisation?

- Monitoring of inputs against resources will continue to be required to ensure proper stewardship of public funds by councils. However, outcome budgeting could potentially improve monitoring and accountability within local government subject to the proviso that councils must have a meaningful input to the formulation of jointly agreed outcome measures.

8. What impact, if any, would the Scottish Executive moving to outcome budgeting have on your organisation?

- A move to outcome budgeting would potentially focus decision making and resource allocation around the objective of achieving jointly agreed outcomes. The key factor here is the inclusive nature of the process by which outcomes are agreed.
In areas such as community planning and the pursuit of the joint futures agenda the absence of moves towards jointly agreed outcomes has made joint working arrangements more difficult.

9. Do you feel that setting specific policy targets - and allocating resources according to these - may lead to unexpected outcomes?

Yes – it is certainly the case that allocating resources to achieve certain specific policy targets and outcomes will not necessarily result in the expected outcome. It is possible that adjusting the resources allocated to a certain area to try to achieve a particular outcome may inadvertently adversely impact on other desired outcomes.

10. Do you think it is likely that outcome budgeting will be more widely adopted in future?

Yes – because of the continuing emphasis on performance within the public sector in general and local government in particular.

There will, however, be a need for a major educational exercise so that the concept of outcome budgeting and the potential benefits are widely appreciated.

11. Are there any other comments you would like to make?

In conclusion SOLACE is pleased that the committee is continuing to explore potentially beneficial innovations in the public sector financial framework and looks forward to making a constructive contribution to outcome budgeting in the future. SOLACE is totally committed to the principle of partnership working and believes a partnership approach is the best way to successfully take forward the use of outcomes.

Alex Linkston
SOLACE Portfolio Holder for Finance
15 August 2002
FINANCE COMMITTEE

Block Allocations to Health and Local Government

1. One of the continuing scrutiny problems in Parliament is the transfer of significant funding as block allocations through Unified Budgets to health boards (over £5 billions) and Revenue Support Grant (over £7 billions) to local government. This is around 55% of the Scottish Budget.

2. The conventional argument is that block allocations permit local flexibility to meet differing needs, and this is particularly important for accountability in local government. The problem from the Parliament’s perspective with its concern for greater transparency to permit robust scrutiny is that this approach blurs accountability. The Local Government chapter in the AER concentrates on the regulatory framework (see pages 53/54 of BABS), and contains only a general commitment to improving services such as improvements to quality of life, modernisation of teaching, additional investment in police and fire, free personal care etc, with no outputs identified and no price tags attached. It is difficult to see how the Parliament can seriously scrutinise such funding proposals if the underlying policy and financial assumptions are not made explicit.

3. The problem in health differs, as the Health chapter is replete with data on objectives and anticipated outputs, which are provided in national terms, but the performance assessment framework operates privately between the department and its agencies.

4. In the current budget documents we know how much is being allocated to boards, but not how much the Executive assumes will be spent on the differing forms of health care (acute, maternity, community, etc) in the three years from 2003-4, but we are told how much was spent between 1997-8 and 2000-1.

5. This block approach has also been commented on by the Local Government Committee, which refers spending on specific services to the functional committees, but the problem of GAE providing hypothetical allocations for services becomes a concern when local authorities persistently underspend in a service, as with roads maintenance in recent years.

6. If the FIAG objectives are to be met, then a clearer basis for scrutiny and accountability is necessary. In both cases, the block allocations are built up on a service by service basis with the totals including national financial assumptions, for example the costs of the teachers’ pay agreement. It is arguable that these should be set out for the Parliament’s scrutiny in the Draft Budget.
7. The objection will be that this will impinge on local autonomy. The counter argument is that the Parliament needs to be assured that the national priorities which it has endorsed, e.g. more spending on education and crime, are reflected in budget decisions. This does not require all boards and local authorities to spend their *individual* allocation on each service. All it requires is the departmental financial and output assumptions to be published, and the *aggregate* outcomes for health boards and local authorities in terms of budgets and outputs (e.g. total spending on police, plus number of additional policemen appointed) to be reported to the Parliament during the Spending Review period.

8. The Deputy Minister asked for a note to form the basis of an informal exploration of these issues. The Committee’s guidance on how to proceed with this note is needed. We could either –

(a) suggest a joint working group involving finance and health ministers, with the convenors of the finance, health and local government committees, to consider how to proceed; or

(b) form a joint working group of relevant officials to work out details and report; or

(c) establish both, with officials preparing agreed papers for political consideration.

These groups could consider what information is needed for transparent scrutiny, in terms of both *resource allocation* and *performance monitoring*.

Professor Arthur Midwinter
Adviser to the Finance Committee