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I welcomed the opportunity to debate on 26 January the Finance Committee's thoughtful report on the 2011-12 Draft Budget alongside Stage 1 of the Budget Bill. Following on from the comments I offered in that debate and my evidence to the Finance Committee on 1 February, I now enclose, at Annex A, the Scottish Government's written response.

In this response I have set out how the Government's proposals are supporting economic recovery. I would stress that I continue in dialogue with other political parties to ensure the Budget Bill at Stage 3 adequately addresses this key issue.

**JOHN SWINNEY**

## RECOMMENDATIONS IN FINANCE COMMITTEE REPORT ON THE DRAFT BUDGET

**1. THE UK GOVERNMENT'S SPENDING REVIEW**

**The Committee would support and encourage the Scottish Government to explore with the Treasury the possibility of leveraging in additional funding in advance of 2013-14.** (paragraph 22)

I welcome the call the Committee makes for the Treasury to provide greater scope to lever additional investment into renewables at an early stage. We are continuing to make representations to the UK Government on this issue.

**The Committee would welcome a response from the Scottish Government explaining its consideration of the impact of cuts in reserved areas on Scotland and how these influenced its own budgetary decisions.** (paragraph 24)

All government portfolios take careful account of decisions taken on reserved areas in setting the course of relevant Scottish Government policies and our budget reflects that. In relation specifically to Defence, the Committee will be aware of the Scottish Government's position on the particular issue of the threatened closure of RAF bases in Scotland. We will continue to assess any implications for Scotland and will set them out clearly to Parliament.

**The Committee regrets the lack of any information within the Draft Budget linking an evaluation of government performance over the period of the previous spending review with its policy priorities for *Draft Budget 2011-12* and intends to address this issue in its legacy paper with a view to informing a revised Written Agreement.** (paragraph 39)

The Scottish Government disagrees that there is a lack of available information. For example, a range of information is available through *Scotland Performs*, which is a key aspect of outcomes-focused government. It has modernised the way we report on national performance, providing a dynamic means of tracking delivery of the Government's long-term objectives within the context of the National Performance Framework.

The National Performance Framework provides a link, or common alignment between reporting on policy progress and financial reporting. Within the draft budget document itself, each portfolio chapter sets out a clear explanation of what has been delivered in the period since 2007. However, the Scottish Government will be happy to engage with the committee on how we might build on the approach taken to date – and to reflect in due course on its legacy paper – as we move forward.

**Given the above criticism of the extent to which the Government's Purpose does in fact provide the foundation for *Draft Budget 2011-12* the Committee invites the Government to publish, prior to the Stage 3 debate, an overview of the assessment which it has carried out to satisfy itself that the measures within the budget support the process of economic growth.** (paragraph 40)

The Scottish Government has been unambiguous around its objective of supporting sustainable economic growth, and clearly articulates its approach in Chapter 2 of the Budget document. The Chapter sets out the essential steps that we have taken to support

the recovery, by prioritising our efforts to: support employment; strengthen education & skills; and promote new business growth.

Since 2007, our actions to support the economy have been founded in the Government Economic Strategy. In addition, immediately following the onset of recession we have mobilised the resources of all of Scotland's public sector to deliver a vital economic stimulus through our Economic Recovery Plan.

Over the last three years we have:

- protected household incomes through freezing council tax;
- delivered the highly successful Small Business Bonus Scheme which benefited 74,000 business properties across Scotland in 2009-10;
- met our commitment to match the English poundage for business rates;
- modernised the planning process to promote economic development with our partners in local government;
- continued to spend some £3.3 billion on capital to support infrastructure investment and jobs across Scotland, in 2010-11. This investment is estimated to ultimately support approximately 50,000 jobs in the Scottish economy, including over 28,000 in the construction sector;
- delivered vital infrastructure investments across Scotland, including the completion of the M74 extension and the Airdrie - Bathgate rail link;
- approved European Structural Funds awards to over 650 projects – worth nearly £620 million – helping 120,000 individuals to prepare for employment or to develop their skills and supporting an estimated 20,000 jobs over the long-term;
- supported the activities of our Enterprise Agencies to help start new businesses and provide new opportunities for existing businesses to grow; and,
- provided training opportunities – 40,000 places in 2010/11 alone, including 20,000 Modern Apprenticeships.

This Budget reaffirms our commitment to create the conditions for long-term sustainable growth and is underpinned by three key themes:

- Enhancing Scotland's human capital;
- Maintaining and improving Scotland's physical capital; and
- Developing sources of comparative advantage in the world economy.

The context for our approach in this Budget is critical to understanding the decisions that this Government has taken. Scotland's recovery remains at a crucial stage and is threatened by a number of factors, including continued inflationary pressures through rising commodity prices and the recent increases in VAT and fuel duty; slow growth in our key trading partners; and continued real terms declines in household incomes. The increase in VAT alone is estimated to the average Scottish household approximately £380 a year (2010-11 prices).

At the same time, as a result of the UK Comprehensive Spending Review, the Scottish Government has to contend with unprecedented cuts to public expenditure and it is our strong view that the position being forced upon us by Westminster will act as a drag on the economy.

The short-term risk is clear; over £1 billion is being removed from the economy, which will have an affect on both demand and employment. However, the more challenging aspects of the Westminster cuts are around the long-term risks to the future capacity of Scotland's

physical and human capital The recent UK GDP statistics published last month, which show that the UK economy has returned to negative growth, should act as a clear warning that the spending cuts being pursued by the UK Government pose a real threat to the businesses and people of Scotland.

The decisions we take today will set the scene for how we are placed as a country – over the medium to long-term – to take advantage of the new growth and employment opportunities, which will undoubtedly emerge. For example, the movement to a low carbon economy presents a considerable opportunity. It is globally recognised that the impacts of climate change will eventually be an unavoidable, absolute cost to the global economy. The Scottish economy will be no different, but our challenge is to ensure that our approach to climate change can reduce the *relative* costs of climate change to the Scottish economy – and deliver a significant competitive advantage in the future.

As such, this Government is determined to not only ensure that this Budget seeks to maintain the resilience that has been evident in the Scottish economy and drive forward recovery; it is also imperative that we focus on protecting communities across Scotland from the worst impacts of the UK Government's cuts. Indeed, we hold the view that by protecting communities from the most savage of cuts we will be maximising the opportunity for future economic success. Therefore, decisions in this Budget are seeking to limit the social and economic costs of the legacy of the recession and that is why we have chosen to:

- support jobs directly, through continuing with our investment programme in schools, hospitals and transport;
- transfer £100m in spending from 2010-11 into 2011-12; helping to offset the severity of the cut in the 2011-12 capital budget;
- leverage additional private sector investment to maintain levels of aggregate investment in the Scottish economy by working with the Scottish Futures Trust and local authorities to generate additional funding to support higher levels of capital investment;
- introduce 34,500 training opportunities in 2011-12, including the continuation of the vital Modern Apprenticeships programme;
- not raise university tuition fees or college charges and we will guarantee that no existing student will see their living costs support decrease in academic year 2011-12;
- continue the Educational Maintenance Allowance (EMA) scheme – honouring our commitment to support the least well-off students in Scotland.
- continue the Small Business Bonus Scheme – reducing tax burdens on Scotland's small businesses to help them through the difficult economic conditions;
- support the Scottish Loan Fund through the Scottish Investment Bank, helping to address a gap in the market for loan finance for established growth and exporting companies;
- extend support to attract new inward investment, through the Regional Selective Assistance, R&D Plus and Training Plus schemes; and
- focus on new opportunities for Scottish businesses to enlarge their export markets by making provision for a suite of schemes to boost export growth, including the SMART Exporter Initiative, jointly led by SDI and Scottish Chambers International.

Given that the labour market and household finances face ongoing pressures; it is vital that we protect our most valuable resource, our people. That is why we have **maintained support for the health budget** and provided relief for households by **maintaining, with**

**local authority partners, the freeze in council tax.** The health of Scotland's working-age population is critical for delivering the future economic success of Scotland. The NHS is the single biggest employer in the Scottish economy and employs over 168,000 people in all parts of the country and by supporting the NHS, not only are we ensuring that employment is supported in communities across Scotland we are also ensuring that investment in world class research and development in medical/life sciences technology and innovation are maintained.

In the face of budget cuts, and pressure on the overall wage bill, there is clearly a choice between increasing pay versus protecting job numbers. By **limiting pay awards**, the savings made can be used to maintain employment levels as best as possible; **protecting around 10,000 jobs next year**. In addition, central to our plans are measures to support the lowest paid public sector workers. Our budget commits to the **introduction of a 'living wage' of £7.15 per hour and a minimum pay increase of £250 for workers earning less than £21,000**.

We have **maintained the proportion of total spending that is provided to local authorities** in order to reflect the importance of local services to economic development, particularly through educational support. We have aligned and coordinated public service investment in order to ensure that employment opportunities are maximised. Also, the provision of affordable housing and support to households provides an important lever to create and support employment to improve the impact of public spending cuts on the most vulnerable members of society.

Finally, as a reshaped global economy begins to emerge from recession, Scotland must play to its strengths while exploiting its comparative advantages as it seeks to position itself in the new economic world. We are determined to build on key sectors and develop our most promising opportunities for the future, such as industries associated with the low carbon economy. The **Low Carbon Economic Strategy**, published in November 2010, highlights the opportunities for every business and industry in Scotland to benefit from the low carbon transition. Ambitious legislation and Scotland's global comparative advantages mean that it has the potential to exploit 'early mover advantage'.

**The Committee also invites the Government to explain why its strategic priorities have changed, as set out in paragraphs 30 and 31, and whether it has carried out an assessment of the impact of its previous priorities on its Purpose.** (paragraph 41)

The Draft Budget 2011-12 confirmed that the Scottish Government will continue to use the National Performance Framework as a means of organising objectives, activities and resources. The priorities listed in the Draft Budget 2010-11 remain priorities – for example, through the Scottish Government's continued investment in Higher and Further Education, Education Maintenance Allowances and Modern Apprenticeships; the continuation of the Small Business Bonus Scheme; our capital programme and the £2.5 billion infrastructure investment programme the Government will deliver through the NPD model; our continued commitment to efficiency and simplification of the public sector, including the plans set out alongside the Draft Budget document to realise efficiencies in procurement and the costs of scrutiny ; and the Government has published an equalities assessment of the Draft Budget that sets out the impact of our decisions on our equalities objectives.

The Draft Budget 2011-12 makes clear that our overarching strategy in addressing the £1.3 billion cut imposed by the UK Government has been to prioritise economic recovery and the delivery of the Scottish Government's Purpose, protect frontline services and

tackle climate change. These fundamental priorities were endorsed by Parliament in the Stage 1 debate held on 26 January. Clearly such an approach continues to take forward the specific priorities set out in the Draft Budget 2010-11.

The Government has provided further details elsewhere in this response about the rationale behind its economic strategy, as set out in the Draft Budget 2011-12 and the Economic Recovery Plan, and the facilities that exist to track progress in the delivery of the Government's Purpose, in the context of the national performance framework.

## **2. WORKFORCE AND PAY POLICY**

**The Committee welcomes the commitment within the Government's pay policy to protect the lowest paid but agrees with the Local Government and Communities Committee that it is essential that further work is undertaken to assess the costs with a view to implementing the same protection for the lower paid in local authorities and indeed across the public sector.** (paragraph 53)

The Scottish Government is committed to introducing the Scottish Living Wage (SLW) across all parts of the public sector where it has direct control over pay. This extends beyond those bodies specifically covered directly by the pay policy and the SLW will be introduced for example in all Health bodies and across police authorities. Local Government pay is a matter for them and the Scottish Government cannot directly affect this.

**The Committee notes the concerns of the Economy, Energy and Tourism Committee in relation to the lack of discussion on the development of a sustainable and coherent public sector pay policy within the draft budget and agrees that the Government should set out in more detail its intentions on public sector pay policy including its position on a recruitment freeze.** (paragraph 54)

The Scottish Government published its public sector pay policy for 2011-12 alongside the draft Budget. The published material sets out clearly the aim, rationale and the key components of the pay policy. The Scottish Government believes that the pay policy is a necessary and proportionate response to the budget cuts imposed by Westminster. It is designed to help sustain public services and employment by bearing down on pay increases (including a complete freeze on pay for chief executives) while seeking also to protect the lowest paid.

A technical guide on the pay policy has been published to assist employers and staff groups prepare for pay discussions in respect of 2011-12. The extent to which recruitment needs to be restricted is for individual employers to consider in consultation with staff, in the light of resources available in 2011-12, the skills profile of the workforce, and staff turnover rates. The Scottish Government will continue to work with public sector employers and staff representatives to ensure that the pay policy is applied equitably and fairly.

**In particular, the Committee asks whether the Government agrees with the IBR panel that public sector employment will fall by approximately 5.7% - 10%.** (Paragraph 55)

The UK comprehensive spending review indicated that overall Scottish DEL resource budgets will fall in real terms by 8.1% over the forthcoming 4 years. As staffing costs account for such a significant part of the total spend of the Scottish Government budget, a

reduction in public sector employment will be necessary to live within cuts of this magnitude, even before allowing for any pay growth over the period. Scottish Government policy is to maintain public sector employment as far as possible, and to enable employers to maintain employment opportunities at a time when total public spending is falling. Precise reductions in employment numbers will depend very much on individual circumstances and will vary across sectors.

**In evidence to the Committee the Cabinet Secretary confirmed that the Government's economic model can calculate the impact on jobs of its spending decisions. The Committee would, therefore, welcome an indication from the Government of how many public sector jobs it expects will be cut as a consequence of the draft budget. It would also have been beneficial to have more information published in the budget document on how much savings the Government expects from the pay restraint measures and for the document to spell out the impact on individual budget lines. (paragraph 56)**

The 2011-12 public sector pay policy and the measures set out in the draft budget are designed to protect public sector services and employment as far as possible in the face of unprecedented cuts imposed by the UK Government. The Scottish Government has expressed clear support for no compulsory redundancy policies to be adopted across the public sector, provided the necessary workforce flexibilities are delivered, in dialogue and partnership with local staff representative groups. However, the Scottish Government has also been clear that staff numbers across the public sector are likely to fall because of the the UK Government's policies on public spending.

The Scottish Government's policies are designed to minimise that fall. Movements in staff numbers will depend on how available budgets are managed, and will vary between sectors. It is for individual public authorities to determine precise local pay and workforce arrangements, in consultation with employee representatives, within the strategic framework provided by our pay policy. Within the Scottish Government, there is a target of reducing the costs of the Senior Civil Service by 10% between 2010-11 and 2011-12, and this target will be over-achieved with no compulsory redundancies. Further cost reductions totalling 15% will be achieved between 2011-12 and 2014-15.

**In terms of senior pay, the Committee again recognises the progress that has been made in reducing the costs of the senior paybill and that access to non-consolidated pay has been suspended for 2011-12. However, it repeats the views expressed in its 2009 report on public sector pay that the policy of paying bonuses to senior appointees should be reviewed; and as each of these particular appointments comes up for renewal, bonus arrangements should be altered or brought to an end in line with the outcome of the review. (paragraph 57)**

It is Scottish Government policy to look at reducing the maximum potential bonus amount or removing it altogether where possible. The Scottish Government has cut the proportion of chief executive posts where the previous maximum potential bonus exceeded 10% of salary (several such arrangements were in place in 2007) and has removed bonuses in a number of cases as posts have fallen vacant. The Scottish Government will continue to look at reducing the pay of a Chief Executive as and when posts become vacant and has made a public commitment to reduce the remuneration by 10%, although the extent to which salaries can be reduced depends on the ability to be able to recruit at that lower level. For contractual reasons, it is difficult to make such reductions whilst a sitting Chief Executive is in post. In principle, removing bonuses for existing employees would require compensation for the loss of this entitlement or a review of consolidated pay to make up for this loss. This may not offer value for money and, in the current financial climate, such

considerations must be taken into careful account. The Scottish Government has invited employers to invite individuals eligible for a bonus to waive all or part of this in 2009-10 and 2010-11.

The UK Government has commissioned Will Hutton to look at Fair Pay in the Public Sector. The review will investigate pay scales across the public sector and make recommendations. The Scottish Government has asked that this review takes into account pay in Scotland and Scottish Government officials have submitted evidence to the review. We will consider the final report of the review when it issues in Spring 2011.

### **3. EFFICIENCY**

**The Committee notes that arrangements for reporting have yet to be set out, and would have preferred this to be done alongside publication of the Draft Budget. Given the concerns above the Committee invites the Scottish Government to explain how it will ensure that the “test” which the Cabinet Secretary has set out in relation to efficiency savings will be enforced. (paragraph 72)**

The Scottish Government introduced in 2007 an outcomes-based National Performance Framework, providing a unified vision and quantifiable benchmarks against which delivery of national priority outcomes are measured.

Single Outcome Agreements (SOAs) embody how local partners across Scotland take forward our outcomes-based approach. In SOAs, Local Authorities and CPPs set out the local outcomes they plan to achieve, responding to local needs and priorities, and they are expected to report on that basis. These local outcomes contribute to the delivery of the Government’s Purpose and National Outcomes.

Public bodies contribute directly to the Government’s Purpose through the 15 National Outcomes, progress towards which is measured against the 11 High Level Purpose Targets and 45 National Indicators - and are expected to report on that basis.

Scottish Ministers expect public bodies to be able to supply the necessary supporting evidence (on costs, activity and quality) to provide assurance on their reported efficiencies.

We will produce a template, before the new Financial Year, that will enable public bodies to report their efficiencies in a consistent format.

In addition, the Scottish Public Finance Manual (SPFM) requires Accountable Officers to comply with their duty of Best Value, which includes a regard for efficiency and effectiveness. Although not covered by the SPFM, local authorities are also subject to a duty of Best Value. Audit Scotland conducts Best Value audits of local authorities on behalf of the Accounts Commission, the scope of which may cover how audited bodies manage their performance in terms of efficiency.

**The Committee is concerned that the issue of whether efficiency savings will be recycled or contribute to the gap in funding remains unclear and invites the Government to explicitly set out its position as a matter of urgency. (paragraph 78)**

The Scottish Government has been very clear on this issue. The target of 3% efficiency savings is being applied across the public sector as our expectation of what bodies will require to generate in efficiencies to protect services from the full impact of the £1.3 billion cut in the Scottish Government’s total budget.



Efficiencies will help public bodies to offset cost pressures and live within the budget allocations they have been given. It is not therefore a question of recycling savings or them making a “contribution to the gap in funding” – the 3% target is part of the strategy we are adopting across the public sector to ensure that all bodies are able to operate within their budget allocations, whether these have been increased, maintained or reduced in the 2011-12 budget.

#### **4. MAINTENANCE OF UNIVERSAL SERVICES**

**The Committee makes no comment on the proposals from the IBR. However, given the Cabinet Secretary’s emphasis on the continued provision of universal services the Committee again invites the Government to be more transparent in explaining how this will have a long-term impact on other aspects of the budget given demographic and other cost pressures. (paragraph 87)**

**The Committee also invites the Government to respond to the view that given the emphasis on the “social contract” the primary aim of the draft budget is the protection of services rather than economic growth. (paragraph 88)**

The Government has been clear about the approach it has taken in proposing a budget for 2011-12, which incorporates many of the IBR’s recommendations, and its longer term vision for Scotland’s public services, which will clearly be informed by the outcomes of the work of the Christie Commission on the Future Delivery of Public Services, our consultation on the future of police and fire services, the Green Paper we have published on Higher Education funding and a range of other workstreams across portfolios.

The Draft Budget 2011-12 document makes clear how the Scottish Government’s commitment to its social contract with the people of Scotland is aimed at delivering a joined up approach that will support economic growth and protect frontline services.

In section 1 of this response the government has set out how the budget prioritises economic growth and supports economic recovery . This is amplified in Chapter 2 of the Budget document.

**The Committee also asks the Government whether the emphasis on a social contract means that the Commission on the Future Delivery of Public Services will need to work on the basis of prioritising the protection of universal services. (paragraph 89)**

The Commission’s remit is available on the SG website. It is for the Commission itself to determine its work programme and to set out its conclusions in due course.

#### **5. CAPITAL SPENDING**

**The Committee welcomes the Cabinet Secretary’s positive response and agrees with witnesses that investment in housing could have an immediate impact on economic growth. (paragraph 98)**

**It is clear that committing 4% of the revenue budget to unitary charges will have serious implications for the rest of the budget in future. The Committee invites the Scottish Government to confirm its position on the upper sustainable limit for the**

**percentage of the revenue budget to be committed to unitary charges in future, and the basis for and assumptions behind, the figure.** (paragraph 102)

The document Scotland's Spending Plans and Draft Budget 2011-12 sets out the key assumptions supporting the Government's policy for funding revenue financed investment:

"To enable a sustainable approach to revenue financed capital investment, the Scottish Government will place a cap on the maximum percentage of the Resource DEL (RDEL) budget to be allocated in any one year to meet unitary charges. This policy will ensure that new proposals for revenue financed investments are assessed rigorously in relation to future revenue affordability as well as value for money.

Based on contracts already signed, the cost of unitary charges will peak as a share of the RDEL budget at around 2.3 per cent in 2015-16 (or £613 million in nominal terms). The Scottish Government intends to hypothecate an additional 1 per cent of the RDEL budget, which will be top-sliced to fund new NPD projects. This policy will provide at least £250 million of revenue support, which will be used to fund up to £2.5 billion of capital expenditure delivered through the NPD model."

The Scottish Government has identified a specific list of projects comprising £2.5 billion of capital investment which are to be delivered through NPD, and unitary payments for which will be top-sliced from future revenue budgets once projects become operational.

In my oral evidence to the Finance Committee (14 December 2010, col. 2884) I stated that:

"I have announced a programme of revenue-financed investment that totals £2.5 billion and will take the percentage of resource DEL in the direction that Mr Brownlee talks about. However, I have given guidance that a sustainable level of revenue-based finance would be no higher than 4 per cent."

The decision on whether to increase the projected unitary charge commitments against the Scottish Government budget from a peak of 3.3 per cent to 4 per cent would require the identification of further projects suitable for the delivery through NPD and a relative prioritisation of those projects against the additional cost to resource budgets.

**The Committee invites the Scottish Government to respond to the view that progress has been slow on developing the use of the NPD model.** (paragraph 104)

The Scottish Government does not share the Committee's view that progress has been slow in developing the Non Profit Distributing model. Since 2007 the Government has made clear its support for NPD as its preferred model for delivering revenue financed investment, alongside a firm commitment to using traditional capital to fund infrastructure investment. The SG has signed contracts for four NPD projects in this period: NHS Tayside Mental Health and Aberdeen, Falkirk and Moray Schools. The Borders Railway project – the first ever NPD project in the rail sector – entered procurement in December 2009.

It is important to note that for much of 2008-09 the state of global credit markets created considerable difficulties worldwide in taking revenue financed projects to market and securing financing for them. The House of Commons Committee of Public Accounts has

recently published a report on 'Financing PFI projects in the credit crisis and the Treasury's response'<sup>1</sup>. Among other conclusions the Committee's report found that:

"Overall, bank financing costs increased by 20-33 per cent compared to bank charges before the credit crisis. This added £1 billion to the contract price, payable over 30 years, for the 35 projects financed in 2009."

Faced with the prospect of severe difficulties in taking forward revenue financed projects, sharply increased financing costs, and considerable uncertainty and risk to our future capital and revenue budgets prior to the UK Comprehensive Spending Review, the Scottish Government has adopted a prudent approach to the deployment of revenue financed investment.

The decision was taken in November 2010 to roll out a new £2.5 billion of investment through the NPD model in order to maintain the continuity of the capital programme, strengthen key public services and support jobs and economic growth. The Government has tasked the Scottish Futures Trust with delivering this programme in partnership with public authorities across Scotland.

## **6. PREVENTATIVE SPENDING**

**The Committee's report on preventative spending emphasises the effectiveness of investment in the early years and reiterates its view here that the Government should work with its partners in local government, health boards and the third sector to move forward an early years agenda.** (paragraph 110)

The Scottish Government supports the Committee's comment and has for several years been developing and implementing measures which recognise that the early years are a crucial stage in laying the foundations for a child's future life chances. While improving outcomes for our children is our primary objective, the Government is also convinced of the economic benefits of early years investment. The Early Years Framework was founded on national and international research and was developed jointly by the Scottish Government and COSLA. The Framework was published in December 2008 – with widespread support from stakeholders. The Government has also published a piece of bespoke Scottish research showing that savings can be made from early years investment in the short, medium and long terms.

The Government also supports the Committee's comments on the need for collaborative working with partners who deliver services on the ground and improved outcomes for our children and families. We are already doing this. Implementation of the Framework is overseen by a Programme Board which is co-chaired by the Scottish Government and COSLA and includes representatives from the NHS and the third sector. At Ministerial and official levels, the Government works closely with Community Planning Partnerships, individual councils and NHS Boards to take forward implementation of the Framework and its associated frameworks aimed at tackling poverty and health inequalities.

We are working with partners to roll out the child-centred and multi-agency approach in Getting It Right for Every Child (GIRFEC) as the means by which the Framework, and all services for children, should be delivered. Independent evaluation of the Highland GIRFEC Pathfinder showed that this approach delivered improved outcomes for children and families and more effective/efficient service provision.

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<sup>1</sup> The report is available at: <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/553/553.pdf>

The vast majority of resources to support improved outcomes in the early years are provided through the block grants to local government and NHS Boards – overall, we estimate that around £1.5 billion is invested annually in supporting the early years. It is worth noting that the Scottish Government also invests directly (for example, £4 million to support the “Go Play” campaign, £1.6 million for the Family Nurse Partnership and the draft Scottish Budget includes £5 million for a new third sector early years/early intervention fund). We have also engaged Professor Susan Deacon to report on what more can be done to build consensus and momentum around the early years agenda – we look forward to seeing her report by the end of January.”

**The Committee recommends that future draft budget documents should include an assessment under each portfolio heading of the progress being made towards a more preventative approach, including an update on the progress made on collaborative working.** (paragraph 111)

Preventative Spending has a key role to play in delivering improved outcomes and has the potential to reduce costs to the public sector, particularly over the longer term, therefore increased scrutiny is appropriate. However, preventative spending is often an integral part of policy and service delivery and as such does not have an identifiable budget. Much preventative spending comes from the block grant to Local Authorities and NHS boards. The Scottish Government will consider how it can assess progress towards a preventative approach as part of the budget process without incurring disproportionate cost.

The Scottish Government recognises the importance of collaborative working (and we have provided details of work with partners in Early Years). We would be happy to include an update on progress on collaborative working as part of any future assessment on preventative spending.

**As stated in the report on preventative spending the Committee will recommend to its successor in its legacy paper that the scrutiny of preventative spending should be integral to the annual budget process.** (paragraph 112)

The Scottish Government support in principle the recommendation that scrutiny of preventative spending should be integral to the budget process; but recognise that there is an inherent complexity in doing so, as noted above.

The focus should remain on promoting the important contribution that preventative spending can make, rather than identifying every pound spent on prevention.

**The Committee also welcomes the inclusion of “early intervention” issues within the remit of the Commission on the Future Delivery of Public Services and has submitted a copy of its report on preventative spending to the Commission.** (paragraph 113)

The Scottish Government welcomes the fact that the Finance Committee has submitted a copy of the report on preventative spending to the Commission on the Future Delivery of Public Services.

## **7. PORTFOLIO ISSUES**

### **(i) Health Barnett consequentials**

**The Committee asks whether the Government considered adopting alternatives to ring-fencing the budget of NHSScotland that allow for a broader definition of health spending as recommended by the IBR. (paragraph 120)**

Improving the health of Scotland, especially in our most disadvantaged communities, remains a top priority to which the Scottish Government is fully committed. We will continue to use the resources that are available to us to achieve those overarching objectives.

In taking the tough decisions required to balance the budget, the Scottish Government has acted to create economic opportunities, protect household income, support frontline services and improve our environment.

The protection of Health spending represents a commitment from the Scottish Government to improve the quality of services provided to patients.

We will deliver on our commitments to protect the Health budget, including funding for NHS Boards, to abolish prescription charges, to improve provision for free personal care and to continue to make provision for new and improved infrastructure through the Government's Hospital building and modernisation programmes.

Even with the level of protection afforded to NHSScotland budgets, it will need to continue to make considerable improvements in efficiency and productivity over the coming years if it is to deliver the required high quality services, recognising growing demands and costs within the Healthcare sector.

**The Committee also invites the Government to respond in detail to the criticism that in ring-fencing health the draft budget gives priority to the protection of public services rather than the Government's Purpose. (paragraph 121)**

The Scottish 2011-12 budget addresses the largest reduction in public spending imposed on Scotland by any UK Government. The UK Spending Review confirmed that the Scottish Budget is reducing by £1.3 billion in cash terms. Capital and Resource budgets will be lower in 2011-12 by £800 million and £500 million respectively.

The budget proposes a balanced set of measures aimed at supporting economic growth, through the enhancement of Scotland's human and physical capital and by developing our comparative advantage in the world economy. This will be achieved by maintaining our funding for health, supporting business and providing substantial support for skills and education, including the provision of 34,500 training places in 2011-12, the promotion of the transition to a low carbon economy, taking forward an ambitious infrastructure investment programme, and protecting public sector employment and household income, helping to maintain demand in the economy.

The Government has outlined a strategic and holistic approach to economic growth that is right for Scotland, at a time when the UK government is putting recovery at risk by cutting public spending – and particularly capital spending – too far, too fast.

The budget is also designed to help meet increases in demand for services, including covering healthcare inflationary pressures over and above those in the economy at large

and, importantly, improving the quality of its services, will require big improvements in productivity. As part of this approach, NHSScotland will require to deliver a minimum of 3% efficiency savings to meet rising costs of healthcare and increasing demand on services.

### **(ii) Further and Higher Education Funding Council**

**The Committee recognises the importance of investment in higher and further education in supporting sustainable economic growth, notes the Government's Green Paper, and urges the Scottish Government to bring forward proposals which secure funding for higher and further education institutions.** (paragraph 128)

The Government fully recognises the central role which further and higher education play in Scotland's sustainable economic growth.

It is for this reason that we have worked so closely and constructively with both sectors to agree that they will continue to prioritise opportunities for young people and all learners in Scotland, by protecting the number of core college and university places in 11-12. We expect to open fresh discussions with the sectors about what can be achieved in the period beyond 11-12; the various options for the future of HE funding which are being explored in the context of our Green Paper will form an integral part of these considerations.

**The Committee also invites the Government to clarify what it means by "core" college and university places.** (paragraph 129)

Core college places are all further and higher education level places at colleges in Scotland, excluding places relating to school/college partnerships. Core university places are all university places in Scotland, excluding those subject to control by the Scottish Government. The controlled subjects are: medicine, dentistry, initial teacher education, and nursing and midwifery pre-registration education.

### **(iii) Local government settlement**

***Before discussing two key elements of the agreement between the Scottish Government and local authorities, the Committee notes the conclusion of the Local Government and Communities Committee that it is not convinced, on the basis of the poor delivery record of local authorities on the commitments contained within the Single Outcome Agreements, that these new commitments will be delivered within the timescale of the 2011-12 budget. That committee calls for in-year monitoring of these commitments and reporting on progress within 2011-12. Furthermore, it calls on the Scottish Government to explain how it will hold local authorities to account if they fail to deliver these commitments.***

**The Committee supports this request.** (paragraph 132)

The joint agreement between the Scottish Government and COSLA on the local government financial settlement for 2011-12, following the 2010 Spending Review, is firmly focused on outcomes, including a number of agreed commitments. The Scottish Government is clear that it expects the commitments entered into to be delivered in full.

The Scottish Government has made clear that it favours a structured approach to the process of verification so that delivery of the commitments entered into for 2011-12 can be

clearly evidenced. A system based on clear and verifiable contributions also provides clarity to local authorities and other stakeholders.

However, the Scottish Government and COSLA remain anxious to ensure that whatever systems are put in place to gather that evidence are appropriate and involve the minimum of bureaucracy. That will be particularly relevant where commitments are specified at a national level.

The process of verification for 2011-12 is being discussed between the Scottish Government and COSLA with a view to agreed arrangements being in place by the start of the 2011-12 financial year.

If local authorities were to fail to deliver on the agreed commitments, the Scottish Government would consider what action it might take in light of the evidence. Local government has received a very favourable settlement for 2011-12, when compared to some other parts of the Scottish Budget. Options that might therefore be considered include the implications that might follow for the settlement local government might receive in the next Spending Review for the period 2012-13 to 2014-15.

**The Committee notes the comments of the Budget Adviser at paragraph 135 that the Council Tax freeze does not support economic growth and calls on the Scottish Government to explain how they believe it does so. (paragraph 136)**

In the depressed current economic climate, the Council Tax freeze has provided welcome relief to hard pressed households across Scotland. That additional cash has been available locally for households to spend in their own areas which in turn can help to sustain local business.

The council tax in Scotland has been frozen in each of the last 3 years (2008 to 2011) providing much needed financial relief to vulnerable groups, including pensioners. This compares to an increase of over 7% over the period 2008-10 for Council Tax in England.

The average saving in Scotland for a council tax band D dwelling in each of the 4 years of the freeze is £30 in 2008-09, £62 in 2009-10, £94 in 2010-11 and £131 in 2011-12, a total saving over the 4 year period 2008-12 of £322.

To end the council tax freeze would cost Scotland's hard pressed local taxpayers an extra £70 million in 2011-12 (for a 3 per cent increase) or £102 million (for a 4.5 per cent increase), just after VAT has been raised to 20%, its highest ever level, in January 2011.

Analysis shows that, as a percentage of income, households in the lowest income deciles have gained then most from the council tax freeze in 2010-11. The benefit is felt across all household types, with married pensioners gaining the most overall.

**The Committee welcomes the Cabinet Secretary's commitment to continuing the council tax freeze, and notes that all 32 local authorities have agreed to freeze council tax when they set their budgets. (paragraph 137)**

At a time when many households are facing pay restraint, exacerbated by recent increases in VAT and fuel prices, we are pleased that the Committee agrees with the Government's view that a freeze in the council tax is the right approach. All councils replied at the end of December 2010 to say that they agreed in principle to the conditions agreed by the Scottish government and COSLA and set for the 2011-12 local government

financial settlement. If Parliament in due course approves the Local Government Finance Order, councils would have until the end of February to confirm that they have made appropriate provision to deliver across all the agreed commitments (including freezing council tax for a further year).

**The Committee invites the Scottish Government to reconsider the proposed levy on large retailers (paragraph 141)**

On balance it was decided that, in light of the swinging £1.3 billion budget cut from the UK Government for 2011-12, we needed to raise some additional income to offset the size of the cut imposed on us. Having decided to freeze council tax and extend the very successful business rates relief for small and medium sized enterprises, the only option open to the Government was to look at the larger businesses. In the event, we decided it would be fair to ask a few of those with the largest retail properties in Scotland to contribute a little more in business rates income. We also took the view that increasing the rates paid by the very largest retailers, particularly those not in town centres, would go some way to help level the playing field between small shops in our town centres some of which have struggled to compete with large out of town retailers.

These proposals would have impacted on only a very small proportion, around 225, or 0.1%, out of over 215,000 non domestic properties in Scotland. The proposed £30 million the large retail property supplement would have raised amounts to around 0.1 per cent of annual Scottish retail turnover. For those who would have had to pay the supplement, it would have increased their business rate bills from an average of around 2 per cent of their turnover to around 2.3 per cent.

It is disappointing that the Opposition does not believe that those with the broadest shoulders should bear more of the burden. Our view remains that it is unfair to penalise families by raising council tax or by reducing our unparalleled business relief package when economic recovery remains fragile, and we will not do so. We will now consider how we deal with the impact of this decision on our Budget plans ahead of Stage 3 of the Budget Bill next week. As a minority government we need to build consensus for our spending plans. We remain open to constructive suggestions as to how to set a balanced budget for next year that protects economic recovery and frontline services as we deal with the consequences of the biggest reduction in public spending imposed on Scotland by any UK Government.

## **8. LEGACY ISSUES**

### **Performance Reporting and linking budgets to policy priorities and outcomes**

**The Committee invites the Scottish Government to explain why it has not implemented a reporting mechanism similar to the Virginia Performs system on which the National Performance Framework is based. (paragraph 154)**

*Scotland Performs* provides the very latest information “on how Scotland is doing” and is available to all, in a single place. The Government is providing data in as close to real time as is possible, to give the most up-to-date and transparent account of performance that’s ever been offered to the public and Parliament.

The simplicity and clarity of presentation on *Scotland Performs*, allows ease of access and improved scrutiny, enabling members of the public to make up their own minds on how government is doing in delivering its objectives. At another level, the website also offers



full details of the pre-determined methodologies agreed by professionals, independent of Ministers. This allows for more in-depth and regular scrutiny by professional users and commentators. That is why there are no plans for any traditional style reporting akin to the annual Virginia Report (which the Council on Virginia's Future is obliged by Statute to present to its General Assembly).

**The Committee also invites the Scottish Government to respond to the conclusions of the IBR panel in relation to the need to move towards a more outcomes-based approach to public service management.** (paragraph 155)

The Scottish Government is already doing this. The National Performance Framework applies across the whole public sector and serves as a common point of alignment at a national level to which the efforts and resources of all of government are focussed. At a local level we and COSLA developed the Single Outcome Agreement (SOA) approach to embody how local partners take forward our outcomes-based approach. In SOAs, Local Authorities and CPPs set out the local outcomes they plan to achieve, responding to local needs and priorities, and they are expected to report annually to their communities on that basis. These local outcomes contribute to the delivery of the Government's Purpose and National Outcomes.

This is a long term approach. The Scottish Government is taking forward a 10-year plan and it has always been the intention that in time the *Scotland Performs* website should be developed to offer a sub-national perspective, through capturing and reporting public sector partner contributions towards the delivery of the Purpose, Purpose Targets and National Outcomes. In January 2010, NHSScotland became the first of our partner organisations to report its performance through *Scotland Performs*.

**The Committee also recommends that the Written Agreement is reviewed at the beginning of the next Parliament to include the minimum level of performance information which should be included in the draft budget and that this should be linked to spending priorities.** (paragraph 156)

Within the draft budget document itself, each portfolio chapter sets out a clear explanation of what has been delivered in the period since 2007. Budgetary information is accompanied with a commentary explaining how it contributes to the Government's overarching Purpose and National Outcomes. Information about individual programmes and policies and related expenditure is published routinely by relevant areas of Government and public sector agencies. However, the Scottish Government will be happy to engage with the Committee – and to reflect in due course on its legacy paper – as we move forward.

#### **Level 4 Figures**

**The Committee recommends that the provision of level 4 figures is included within the proposed review of the Written Agreement.** (Paragraph 159)

The response to the Finance Committee's Stage 2 Report on the 2009-10 Budget indicated that 'The Scottish Government has no plans to routinely publish Level 4 figures and in some cases Level 3 is the lowest level of detail available.' However Subject Committees are encouraged to request details as required from relevant teams to assist them in scrutinising spending plans and since 2007 there has been a considerable increase in the amount of information pro-actively published by the Government. The presumption is for information below Level 3 to be released although as there is no formal

definition of a “Level 4”, individual portfolios will need to decide what level of information and degree of detail to provide. We consider that these arrangements remain appropriate to allow proper budget scrutiny and would be content for them to be reflected within the proposed review of the Written Agreement.