The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

23rd Meeting, 2013 (Session 4)

Wednesday 25 September 2013

The Committee will meet at 10.00 am in Committee Room 6.

1. **Decision on taking business in private:** The Committee will decide whether to take item 4 in private.

2. **Draft Budget Scrutiny 2014-15:** The Committee will take evidence in a round table format on the Scottish Government's Draft Budget 2014-15 from—

    Kim Atkinson, Policy Director, Scottish Sports Association;

    Amanda Coulthard, Corporate and Community Planning Manager, West Dunbartonshire Council;

    Amanda Roe, Performance Manager, Aberdeenshire Council;

    Derek Shewan, Managing Director, Robertson Construction Group Ltd, representing Scottish Building Federation;

    Shona Smith, Project Manager, Scottish Borders Council;

    David Stewart, Policy Manager, Scottish Federation of Housing Associations.

3. **Developing financial reporting in Scotland:** The Committee will take evidence from—

    Caroline Gardner, Auditor General for Scotland, Gemma Diamond, Project Manager, Performance Audit Group, and Mark Taylor, Assistant Director, Audit Services Group, Audit Scotland.

4. **Public Bodies (Joint Working) (Scotland) Bill:** The Committee will consider a draft report on the Financial Memorandum.

FI/S4/13/23/A

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The papers for this meeting are as follows—

Agenda item 1

Note by the Clerk FI/S4/13/23/1

Agenda item 2

Note by the Clerk FI/S4/13/23/2

Agenda item 3

PRIVATE PAPER FI/S4/13/23/3 (P)

Finance Committee

23rd Meeting, 2013 (Session 4), Wednesday 25 September 2013

Draft budget for 2014-15

Introduction

1. The Scottish Government published its draft budget for 2014-15 on 11 September 2013. (A hard copy of the budget document has already been provided to members.)

2. Submissions received from the organisations providing oral evidence are attached at Annexe A. All submissions received in response to the call for evidence can be viewed online at: http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/66640.aspx. Hard copies of the submissions can be provided to Committee members on request.

3. A SPICe briefing on the draft budget is attached at Annexe B.

Focus of budget scrutiny

4. The Committee agreed to focus its scrutiny of the draft budget 2014-15 on the Scottish Government's National Performance Framework.[1] A hard copy of the National Performance Framework has been provided for members.

5. To inform its scrutiny, the Committee's call for evidence sought views on a number of areas and the summary of submissions from witnesses for this meeting provided below is structured to reflect this. The full submissions are provided at Annexe A to this paper.

6. As part of the Budget Strategy Phase, the Committee also asked the Scottish Government to provide in a performance evaluation paper details of the impact that the Scottish Government's spending priorities are having on outcomes. The Committee asked the Scottish Government to provide performance information as follows—

- The Committee, therefore, requests that the performance evaluation document includes details of the impact which the SG's spending priorities are having on outcomes.
- The Committee would welcome an update from the SG on the progress it is making in delivering the decisive shift to preventative spending including details of the initial impact on outcomes and the savings which have resulted.
- The Committee invites the SG to provide details of the impact which each of the change funds has made on improving outcomes and reducing demand on acute services.

[1] Further information about the National Performance Framework is available at: http://www.scotland.gov.uk/About/Performance/scotPerforms

- The Committee would welcome an update on the SG's progress in relation to these indicators including spending details and how performance will inform future spending allocations. The Committee would also welcome an assessment of the impact of preventative spending and the early years change fund in improving performance in relation to these indicators.
- The Committee would welcome an update from the SG on progress in delivering efficiency savings across the public sector over the period of the current Spending Review
- The Committee would also welcome an update from the SG on progress in implementing the McClelland Review's recommendations including details of the savings and efficiencies achieved and projected efficiencies and savings.

7. This information provided by the Government is attached as Annexe C to this paper.

Summary of written submissions

The progress being made by the Scottish Government in meeting its 16 national outcomes as demonstrated by the 50 national indicators, and its 11 purpose targets <u>and</u> *The progress being made in relation to any specific indicator or target*

8. Looking at the National Performance Framework overall, Aberdeenshire Council states—

> "…there is progress being made in delivering the 16 outcomes however there are a number of key national indicators supporting economic growth, sustainability and health that are demonstrating maintained rather than improved performance."

9. The Council then goes on to comment that—

> "Progress in meeting many of the outcomes, targets and indicators is predicated on public bodies working together locally however there is evidence that there are and will be challenges between partners in delivering shared priorities amid the pressures of reform and this could impact on progress demonstrated through the NPF."

10. The Committee may wish to consider this comment in light of wider exploration of how public bodies use performance information from the National Performance Framework in shaping their strategic and budgeting decisions.

11. From the perspective of the housing sector, the Scottish Federation of Housing Associations (SFHA) comments that—

> "Quantifying progress in delivering the national outcomes through housing's direct contribution is hard to measure. Top level figures such as construction spend on new affordable housing demonstrate the economic impact but many national outcomes are one step removed from any directly measurable housing indicators, such as the importance of a good quality affordable home to improving the life chances for children."

12. The submission from the SFHA also sets out, in a table at Appendix 3, information about how housing association and cooperatives work impacts on national outcomes. Commenting on this area in its submission, the SFHA states—

> "We are aware of the work being undertaken by the Scottish Government Housing Policy Advisory Group to link in detailed housing and regeneration visions and outcomes to the national outcomes in the NPF… There is agreement on what housing providers need to make progress on, but a wide gulf between the perceived benefits of housing investment in achieving the national targets and outcomes and actually measuring progress."

Whether the national indicators and purpose targets are an effective means of measuring the performance of government

13. The Scottish Building Federation's submission discusses progress that is being made in relation to housing indicators, noting that a positive assessment is made on improving access to suitable housing options for those in housing need while a neutral assessment is made of progress in increasing the number of new home. In relation to this latter target, the Scottish Building Federation notes that the supply of new housing has decreased by from 26,836 in 2006-07 to 16,882 in 2011-12. Going on to consider both the Scottish Government's housing strategy and recent work by Audit Scotland, the submission notes that—

> "In this context, we cannot agree with the Scottish Government's own positive assessment of its performance against both of these indicators since they fail to reflect the significant shortfall in delivery of new homes that persists in Scotland."

14. Aberdeenshire Council states—

> "However the two measures directly related to public services…do not adequately demonstrate the public sector reform agenda. The public services measures are more reflective of the aims of community planning which is just one aspect of reform. It is not evident the priorities set out as part of the Ministerial Review of Community Planning are reflected in the NPF."

15. Responses also identified the way in which a range of Scottish Government working groups and policy development forums could feed into the NPF. From the perspective of a the housing sector, SFHA comments—

> "The four key housing and regeneration outcomes as previously stated above all support these visions and would feed into National Outcome 10…but until these visions and outcomes are fed into the NPF they remain another set of policy aspirations as yet unmeasured and unsupportive of the NPF. The work done to promote the connection between the visions, outcomes and National Outcome 10 by the Housing Policy Advisory Group should be available publicly on Scotland Performs as soon as possible."

16. In relation to the national indicator for increasing physical activity, SSA states—

> “The recognition of the preventative properties for positive physical and mental health outcomes within this Indicator are welcomed, but these need to be cross referenced into the National Health Outcome and to the related National Indicators. This will help to raise physical awareness as to the importance and contribution of sport and physical activity and will promote increased cross-departmental working and, vitally, budgeting at both local and national government levels.”

Whether there are additional indicators or targets which should be included to measure performance

17. Scottish Building Federation states—

> “…for the National Performance Framework to provide a suitable basis for determining future spending priorities, additional indicators should be incorporated that reflect the critical contribution a clear and sustained programme of direct capital investment has to make towards achieving the overarching purpose of sustainable long-term economic growth – and how effectively that programme is delivered.”

18. In commenting on the overall output of the construction industry beyond housing, SBF further suggests—

> “In light of this and the relative overall importance of the construction industry to Scotland’s economy, we believe there would be merit in developing additional national indicators to measure Scotland’s performance in fostering the positive environment needed for the construction industry as a whole (and not just the house-building sector) to flourish.”

19. In contrast, rather than suggesting any additions, SFHA contends—

> “There is a strong argument for fewer indicators and targets expressed in a clear manner.”

The data used to measure any of these indicators or targets

20. From a local authority perspective, responses note concern about the use of Scottish Household Survey data, with Aberdeenshire Council stating—

> “Whilst the survey methodology is technically robust at a Scotland wide level, the survey is not fit for purpose at a council level as a result of the small sample size…and the time interval between data being collected and reported.”

21. Scottish Borders Council also comments on the link between local and national information when considering performance measurements—

> “It is extremely helpful when the national indicators in Scotland Performs can be disaggregated at Local Authority/Health Board level. This allows us to see where local performance compares favourably or unfavourably, which in turn allows us to establish our priorities. Where possible, it would be helpful if the data used to measure *national performance* was consistent with the data that we can use at a local authority level. For example, there are differences in the

way that we are asked to look at the life circumstances of children, and significant differences in the figures."

22. In terms of the indicators for housing need and new home supply, SFHA states—

"Homelessness figures do not give any evidence of whether housing is contributing to the housing needs that would emerge from any analysis of the national outcomes…

The failure to increase supply over the last few years is clearly linked to the need to make further investment, but without a strategic approach to need such that investment is targeted at assisting outcomes, then the sheer fact that supply has increased is no indicator of the achievements of any of the benefits aspired to."

23. With regard to the physical activity indicator, SSA's opinion is that—

"Current monitoring arrangements for levels of physical activity are not regarded as sufficient and should be reviewed to provide more robust and detailed information to appropriately monitor trends to inform decision making at all levels.

24. Looking beyond specific data and focusing on the use that is made of the data in assessing performance, the Scottish Building Federation sets out its view that—

"In order for the NPF to be a truly effective tool, we would recommend a future requirement for performance against the national indicators to be independently assessed via the auspices of an organisation separate from the Scottish Government such as Audit Scotland."

The linkage between performance information and the Scottish Government's spending priorities <u>and</u> *Whether there is any evidence of specific spending decisions resulting from changes to the performance information within Scotland Performs performance information resulting in*

25. Comments in response to these areas were received from a number of local authorities. For example, West Dunbartonshire Council states—

"At present it is difficult to see from the Scotland Performs publication how the data gathered and published is used to inform decisions making and prioritisation of resources. It would be helpful if more information clarifying how the outcome areas are interconnected and therefore interdependent was presented. Without this, it will be difficult to evidence the complexity of the progress required to deliver on the overarching purpose as laid out by Government."

26. Scottish Borders Council focus on how performance of other public bodies in included within the National Performance Framework—

"Many of the indicators within Scotland Performs require close partnership working with, in particular, NHS Boards. However, it stills feels as if NHS

> Boards' performance is measured using a completely different framework, and reported directly to the Minister for Health, in a way that makes it difficult for CPPs to construct meaningful performance frameworks locally and really see the link between performance information and local spending priorities."

How should Scotland Performs be utilised to inform policy development and spending decisions

27. Aberdeenshire and West Dunbartonshire Councils both comment with West Dunbartonshire suggesting—

> "Mapping resource allocation and available budget against the outcomes/objectives would enhance understanding of current activity and also inform better decision making by allowing the framework to act as a mechanism for objective prioritisation."

and Aberdeenshire Council stating—

> "At a national level, there is a need to explicitly demonstrate how Scotland Performs is informing policy development and spending decisions by expanding on 'What is the Government's role' – particularly where longer term performance against purpose targets or national indicators demonstrate declining or static performance.
>
> More explicit links are required between the abundance of objectives, outcomes, priorities and spending priorities across the Scottish Government and how these are supported by or support the NPF to ensure clarity of priorities."

28. Commenting on the specific indicator of "Increase physical activity", The Scottish Sports Associations states—

> "It is important to note that the reasons highlighted as to why this national indicator is important are all health related outcomes – a further strong argument that if health is to be the principal recipient of the benefits of increasing physical activity, that health budgets should also be the principal investor to the achievement of these outcomes."

29. SFHA states—

> "We have a good cause to strengthen the budgetary links between investment in housing, as evidenced by housing's applicability and influence on many national outcomes. However the current indicators do not enable comprehensive logical investment decisions to follow on from supporting data and this feeds into the achievement of national outcomes and the Scottish Government's purpose."

Performance evaluation

30. In terms of the performance information, some of the written submissions consider the issues of a decisive shift to preventative spend and the role of the change funds.

31. Discussing the national indicator to increase physical activity, SSA notes—

> "The importance of getting more people more active is evident and will result from a recognition of, and support for, focussed additional investment in sport. In order to make the difference, the following is required…
>
> - Adoption of the Christie Commission's "radical shift towards preventative public spending", particularly in relation to the contribution a proportion of the health budget savings in the future.
>   - A version of the 'changefunds' specifically targeted at such specific interventions could provide an initial mechanism for this process."

32. Looking at the support that is necessary to deliver through the change funds, West Dunbartonshire Council notes that—

> "Given the focus nationally on prevention and early intervention at all levels it may be helpful and set a more positive tone if the national framework reflected this focus. There are some good examples of switching the outcomes focus to prevention and early intervention in relation to the plans and activities for the older people and early years' change funds. It is important, however, to recognise that such a switch of focus requires an element of 'bridging' support as the move from responsive service delivery to early intervention activity sees some 'double running' of services as current demand takes some time to lessen."

Conclusion

33. The Committee is invited to consider the above in taking evidence from the witnesses appearing before it.

Catherine Fergusson
Senior Assistant Clerk to the Committee

SPICe
The Information Centre

Financial Scrutiny Unit Briefing

Draft Budget 2014-15

13 September 2013

13/58

Financial Scrutiny Unit

This briefing summarises the spending plans contained within the Scottish Government's Draft Budget 2014-15. The main body of the briefing focuses on the draft spending plans for the next financial year (2014-15). Tables detailing provisional spending plans for the years 2013-14 to 2015-16 are presented in the annex to the briefing.

More detailed presentation of the budget figures can be found in the Draft Budget 2014-15 spreadsheet. The Draft Budget 2014-15 Level 1 and 2 spreadsheet refer to higher level figures.

Level 3 is the most detailed published breakdown of the Government's figures and can be found in the Draft Budget 2014-15 Level 3 spreadsheet.

More detailed level 4 figures will be provided by the Scottish Government and published on the Financial Scrutiny webpage when available.

An overview of the budget can be found in the Draft Budget 2014-15 Infographic.

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CONTENTS

Key

Within the graphics some portfolio titles have been abbreviated as follows:

Health	- Health and Wellbeing
Local Gov	- Local Government
Education	- Education and Lifelong Learning
Infrastructure	- Infrastructure, Investment and Cities
Justice	- Justice
Rural	- Rural Affairs and the Environment
Finance	- Finance, Employment and Sustainable Growth
Culture	- Culture and External Affairs
Admin	- Administration
Crown Office	- Crown Office and Procurator Fiscal Service
Parliament	- Scottish Parliament and Audit Scotland

EXECUTIVE SUMMARY

The Draft Budget 2014-15 sets out Scottish Government budget plans for 2014-15 and indicative spending plans for 2015-16. The 2015-16 figures are provisional as agreement has not yet been reached between the Scottish and UK Governments over the level of the Block Grant Adjustment (BGA) for the Land Building and Transaction tax and Landfill tax which are both due to be devolved in 2015-16. This briefing primarily focuses on 2014-15.

The discretionary element of the Scottish Government's budget is the Departmental Expenditure Limit (DEL). The Treasury DEL provided to the Scottish Government will fall in real terms by 1.3% in 2014-15 but due to the carry-over of monies between years, the actual spend allocated across the DEL portfolios will stand still in real terms (the actual real terms increase is £4.2m, or 0.01%).

The Scottish Government has in recent years attempted to mitigate reductions in DEL capital spend by using private sector investment to deliver infrastructure. Planned investment through NPD financing in 2014-15 is £809m, which is £164m lower than anticipated at last year's draft budget statement. The Scottish Government states that this is due to a combination of reduced project costs and delays to project commencement. The revised investment plans do not release funds for spending elsewhere as the upfront investment is undertaken by private sector contractors. However, it does reduce the overall level of investment in the Scottish economy relative to previous plans.

The Draft Budget includes £182m in 2014-15 for 'financial transactions'. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector and will be required to make repayments to HM Treasury in respect of these financial transactions. The Scottish Government has decided to provide equity/loan finance support in a range of portfolio areas including housing. The plans for individual portfolios suggest that money will need to be carried forward from 2013-14 in order to meet the commitments.

Local Government will receive £10,531.4m from the Scottish Government in 2014-15, made up of £7,843.4m from DEL and £2,688m from non-domestic rates income which is expected to increase by 8.3% in real terms in 2014-15. The Scottish Government plans to freeze Council Tax in 2014-15 for the 7th successive year at a cost of £490m.

The Scottish Government has also proposed plans to "mitigate the worst impacts of the UK Government's welfare reforms". Total funding for these measures amounts to £68m in 2014-15, or 0.3% of the DEL Resource budget.

The Draft Budget was accompanied by documents covering government performance, public sector pay, carbon impacts and equalities.

INTRODUCTION

Draft Budget 2014-15 was published on 11 September 2013 and sets out the Scottish Government's draft spending plans for 2014-15 as well as projected plans for 2015-16. Publication of the draft budget commences parliamentary scrutiny of the Government's spending plans which will continue until the Budget Bill's passage through Parliament in early 2014. The Budget is published amid signs of tentative recovery for the Scottish economy, but with significant challenges remaining around unemployment (currently at 7.4%), falling living standards, and a squeeze on public spending expected to continue for several more years.

Alongside the main budget document, the Scottish Government has published documents on Performance, Public Sector Pay, Carbon Assessment and an Equality Statement. The Finance Committee has agreed to focus scrutiny this year on how the National Performance Framework (NPF) influences spending decisions and whether there is a discernible linkage between performance and budgetary priorities.

The introduction to the Draft Budget document presents the Scottish Departmental Expenditure Limit (DEL) as received from the Treasury. This shows that the total Scottish DEL will increase by 0.9% in cash terms and fall by 1.3% in real terms. However, due to the use of the Budget Exchange Mechanism (BEM)[1], which allows the Scottish Government to move limited amounts of money from one year to the next, the actual amounts available for the Scottish Government to allocate within the Draft Budget are higher. **This briefing focuses on the actual spending plans as set out in the portfolio chapters and annex tables of the Draft Budget publication.**

This briefing primarily focuses on the overall draft spending plans for 2014-15, with the annex containing more detailed numbers and spending plans for 2015-16. The final budget for 2015-16 will depend on the size of the Scottish Block Grant Adjustment (BGA) made as a result of the devolving of Stamp Duty Land tax and Landfill tax under the terms of the Scotland Act 2012. Negotiations are currently ongoing between the Scottish and UK Governments over the BGA issue.

Figures for 2013-14 shown in the Draft Budget document do not reflect any changes announced at Stage 3 of the 2013-14 Budget Bill or subsequently because these have not yet been agreed by Parliament. This means that some changes do not reflect the actual position, for example changes to the Housing and College budgets between 2013-14 and 2014-15 appear higher than is the case once revisions are taken into account.

The Scottish Government's 2015-16 indicative numbers also assume that the Scottish Government makes use of the full £296m of borrowing to support capital investment available under the terms of the Scotland Act 2012. This £296m will have to be repaid in subsequent years – the document states that the borrowing will come from the National Loans Fund and "it is assumed that repayment will be over 25 years, an interest rate of 5 per cent is charged, and the repayments cover both principal and interest from 2016-17 onwards" (Scottish Government 2013a, p169). The 25 year repayment period is significantly longer than the timeframe outlined in the Scotland Act white paper which stated:

> "Borrowing to finance capital expenditure funded by a loan from the NLF will be for a maximum of 10 years. However a longer timeframe may be negotiated, for example 25

[1] The Budget Exchange Mechanism (BEM) allows the Scottish Government to carry over 0.6% of Resource DEL and 1.5% of Capital DEL from one financial year to the next.

years, if this better reflects the lifespan of the associated assets for example, in the case of the Forth Replacement Crossing” (HM Government 2010).

Many of the numbers in this briefing are adjusted for inflation (presented in “real terms” or 2013-14 prices) and the deflator used is the HM Treasury’s GDP deflator, as used in the Draft Budget (1.9% for 2014-15 and 1.8% for 2015-16).

TME, DEL AND AME ALLOCATIONS

Total Managed Expenditure (TME) comprises the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). TME in 2014-15 is £35,407.6m. Figure 1 below shows how this is allocated between DEL and AME.

Figure 1: Allocation of TME, 2014-15, cash terms

DEL: the element of the budget over which the Scottish Government has discretion. Divided into resource and capital expenditure.
AME: expenditure which is difficult to predict precisely, but where there is a commitment to spend or pay a charge, e.g. pensions. Changes to AME are fully funded by HM Treasury, so do not impact on the Scottish Government’s spending power.

Figure 2: Percentage change in DEL and AME in real terms, 2013-14 to 2014-15

- Total DEL is increasing in cash terms and increases in real terms by 0.01%. Within this, DEL Resource falls by 1.3% and DEL Capital increases by 13.3% in real terms.
- AME spend is planned to increase by 1.1% in real terms in 2014-15.

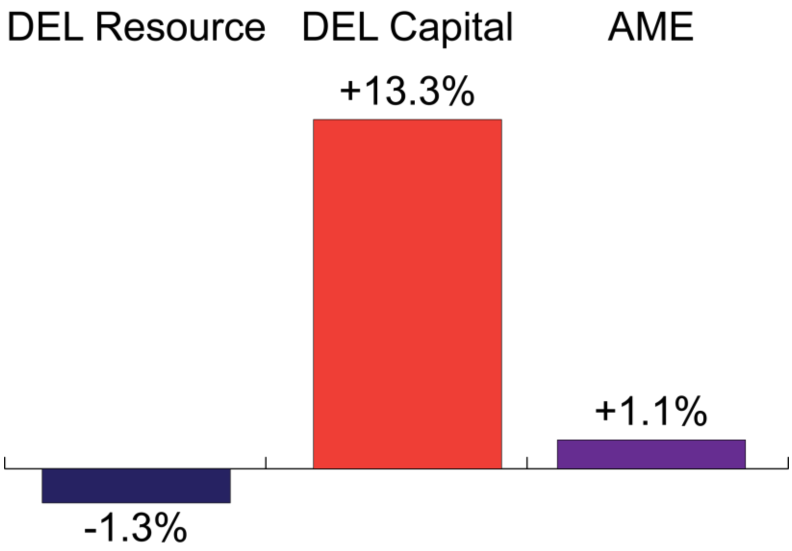
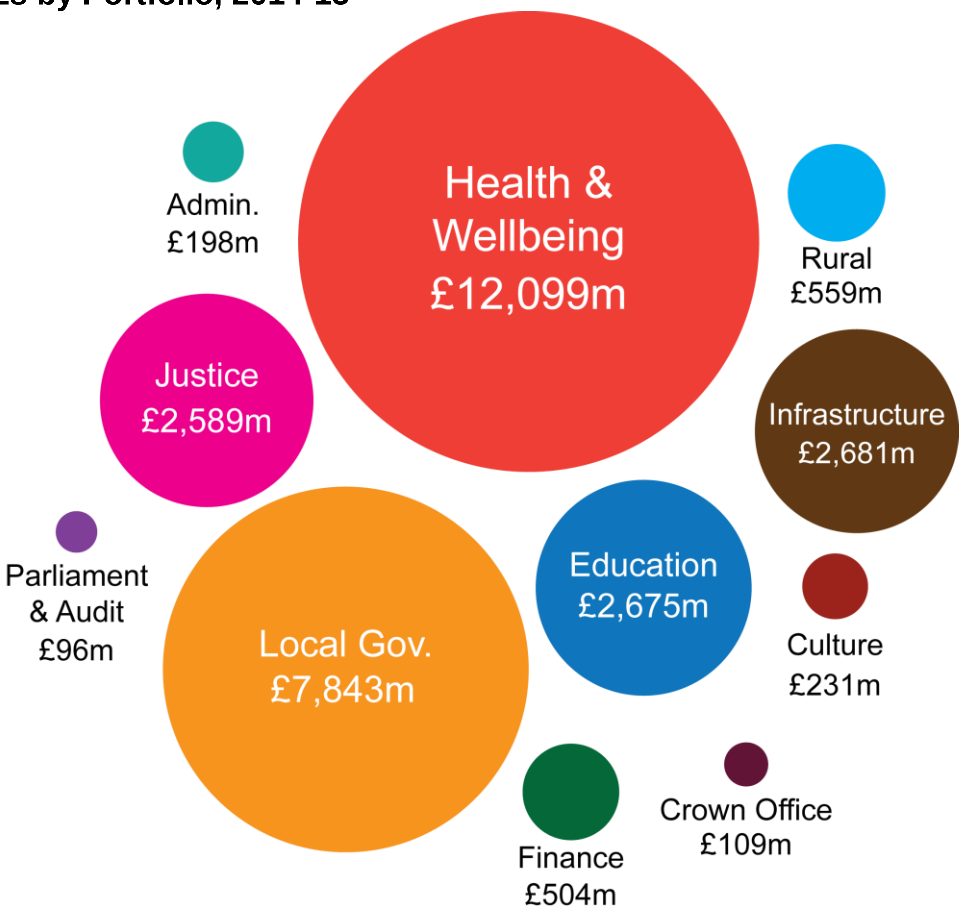


Figure 3: Absolute change, DEL Resource and DEL Capital real terms, 2013-14 to 2014-15

Figure 3 shows the real terms changes in DEL Resource and DEL Capital between 2013-14 and 2014-15. The Scottish Government say they intend to transfer £165m from Resource to Capital in 2014-15, however, this has not been reflected in the total DEL Resource and DEL Capital budget numbers.

DEPARTMENTAL EXPENDITURE LIMITS

Figure 4: DELs by Portfolio, 2014-15

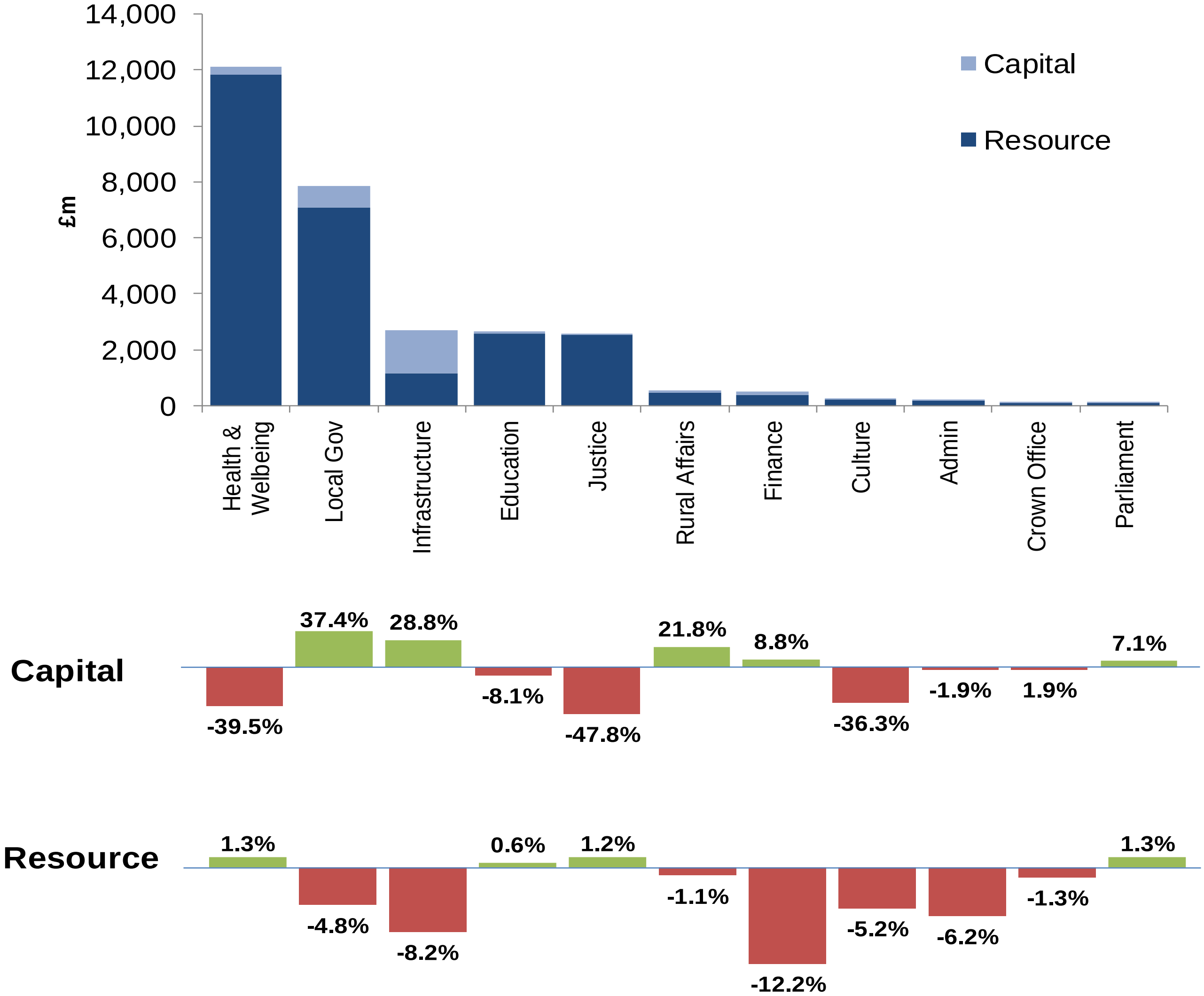


- Health and Wellbeing is the largest portfolio, comprising 40.9% of the total DEL Budget in 2014-15.
- Local Government is the next largest comprising 26.5% of the total DEL Budget in 2014-15.

RESOURCE AND CAPITAL EXPENDITURE

Figure 5 shows DEL resource and capital by portfolio, 2014-15, and real terms change on 2013-14.

Figure 5: Resource and Capital DEL Budgets, and real terms % change



- Health capital spend falls by nearly 40% in real terms. Health capital is not protected in the same way as Health resource. However, a number of Health infrastructure projects are planned to be delivered via NPD financing, which is not included in the DEL Capital budget.
- Capital spend is likely to fluctuate from year to year which partly explains some of these changes. For example, the Local Government capital budget grows quite rapidly in 2014-15. This is because the Local Government capital settlement was re-profiled with reductions in 2012-13 and 2013-14 of £120 million and £100 million respectively offset by a corresponding increase in 2014-15 of £120 million with £100 million added in 2015-16.
- Although the local government resource DEL budget falls by 4.8%, the total local government settlement also includes expected income from non-domestic rates. See the Local Government section of this briefing.
- Justice sees the largest fall in capital of 47.8% mainly due to large infrastructure projects being completed in 2013-14, most notably the Crime Campus at Gartcosh, the Parliament House project within the Scottish Court Service and the completion of HM Prison Grampian.
- Finance, Employment and Sustainable Growth has the largest % real terms reduction in DEL Resource (-12.2%) largely due to the re-profiling of Energy spend from 2014-15 to 2015-16.

CAPITAL AND INFRASTRUCTURE

The Scottish Government cites infrastructure investment as a central element of its approach to boosting economic recovery and employment. As such the Scottish Government has sought to supplement the 2014-15 DEL Capital budget with Non-profit distributing (NPD) funding (£809m), Regulatory Asset Base (RAB) rail enhancements (£449m), capital receipts from the sale of assets (£80m), and transferring DEL Resource to DEL Capital (£165m). This takes the total planned spend on infrastructure in 2014-15 to over £4bn.

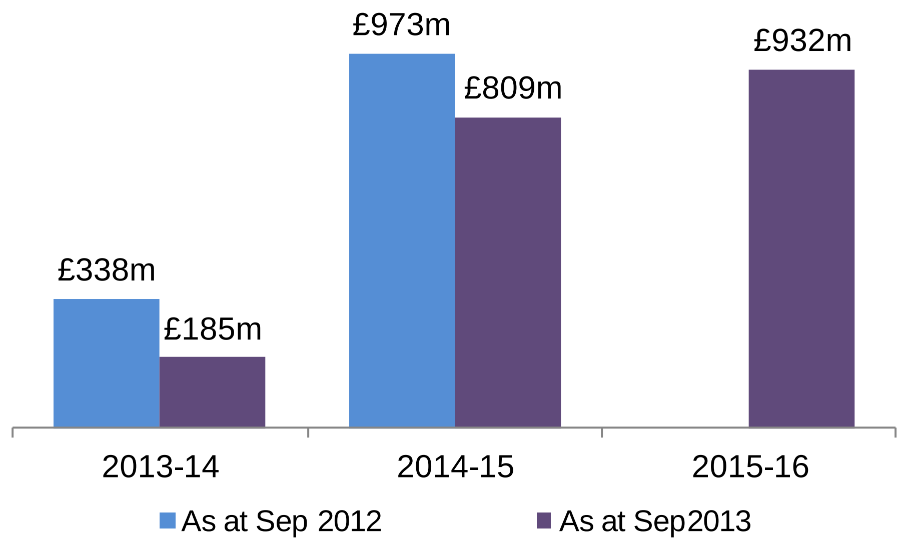
The reallocation of £165m from DEL Resource to DEL Capital appears from the document to be largely coming from within the Health Budget (Scottish Government 2013a, p26) where there is a planned £120m 'provision for Transfer to Health Capital'; there is also a £41.8m resource to capital transfer within the Enterprise bodies budget (p48). These reallocations have not been reflected in the budget document totals which means that, if delivered, DEL Resource is overstated by £165m and DEL Capital is understated by the same amount.

NON-PROFIT DISTRIBUTING (NPD) PROGRAMME

In 2014-15, the Scottish Government plans to progress a range of projects using NPD financing. This includes projects such as the M8/M73/M74 motorway improvements, the Aberdeen Western Peripheral Route as well as a range of school, college and health projects. NPD investment is a form of revenue funding which means that the Scottish Government does not pay the upfront construction costs, but is committed to making annual repayments to the contractor, typically over the course of 25-30 years.

Planned investment through NPD financing in 2014-15 is £809m, which is £164m lower than had been anticipated at the time of last year's draft budget statement. The Scottish Government states that this is due to a combination of reduced project costs and delays to project commencement. Any reduction in planned NPD investment does not release funds for the Scottish Government to allocate elsewhere in its budget, as the investment is initially undertaken by private sector contractors. It does, however, reduce the overall level of investment in the Scottish economy relative to what had originally been planned.

Figure 6: Planned NPD investment



REVENUE FINANCING AND THE 5% CAP

Annual repayments resulting from revenue financed projects come from the Scottish Government's revenue budget. The Scottish Government has committed to spending no more than 5% of its total DEL budget on repayments resulting from revenue financing (which includes NPD, previous PPP contracts, regulatory asset base (RAB) rail investment) and any repayments resulting from future borrowing. Based on current plans, the Scottish Government will spend 3.5% of its total DEL budget on such payments in 2014-15, rising to a peak of just over 4.5% in 2017-18. On the basis of the 2014-15 total DEL, the 5% cap would imply maximum annual repayments of £1,467m - £1,479m, depending on the DEL definition used.

The 5% cap relates only to the Scottish Government's commitments in relation to revenue financing and borrowing. Any repayments by other bodies, such as local authorities (for example, in relation to schools) or health boards (for example, in relation to hospitals) are not included within the cap, although there are significant numbers of such projects underway or planned for revenue financing. In 2014-15, repayments by all bodies total £1bn, although this figure does not include RAB repayments.

QUEENSFERRY CROSSING

The Queensferry Crossing is one of the Scottish Government's largest infrastructure projects. The costs for a replacement crossing were originally estimated at between £3.2bn and £4.2bn, but have since been revised downwards. In the draft budget statement, the Scottish Government announced a further downward revision in the cost estimate, with the revised estimated cost now £1.4bn - £1.45bn. The Scottish Government announced savings of £145m since construction started in June 2011 (Scottish Government, 2013f). The £145m savings result from the release of contingency funding and will be spread across the lifetime of the project. The Scottish Government's planned spending on the Queensferry Crossing in 2014-15 is £241m, which is £66m lower than had been planned at the time of last year's draft budget.

FINANCIAL TRANSACTIONS

The Draft Budget includes £182m in 2014-15 for 'financial transactions'. This relates to Barnett consequentials resulting from the UK Government's Help to Buy and Build to Rent equity/loan finance schemes (allocated to the Scottish Government following the 2012 Autumn Statement and the 2013 UK Budget). The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance. The Scottish Government will be required to make repayments to HM Treasury in respect of these financial transactions, although the repayment terms have yet to be determined.

The Scottish Government has announced how some of this funding is to be allocated. A total of £182m has been allocated to housing schemes (including the Open Market Shared Equity Scheme for first-time buyers and a further scheme aimed at buyers of new build properties). (Scottish Government, 2013g and 2013h).

The budget document suggests that the Scottish Government has decided to provide equity/loan finance support in areas other than housing. Individual tables in the budget document show the following profile for financial transactions.

Table 1: Financial transactions, £m

Portfolio area	2013-14	2014-15	2015-16	Total
Health and wellbeing	-	4.0	2.0	**6.0**
Finance, employment and sustainable growth	-	9.5	64.5	**74.0**
Education & lifelong learning	-	1.0	2.0	**3.0**
Rural affairs and the environment	-	-	30.0	**30.0**
Culture and external affairs	-	-	2.0	**2.0**
Infrastructure, investment and cities	30.9	195.3	211.0	**437.2**
Total of above	30.9	209.8	311.5	**552.2**
Total shown in Draft Budget Table 1.01	**139.0**	**182.0**	**311.0**	**632.0**

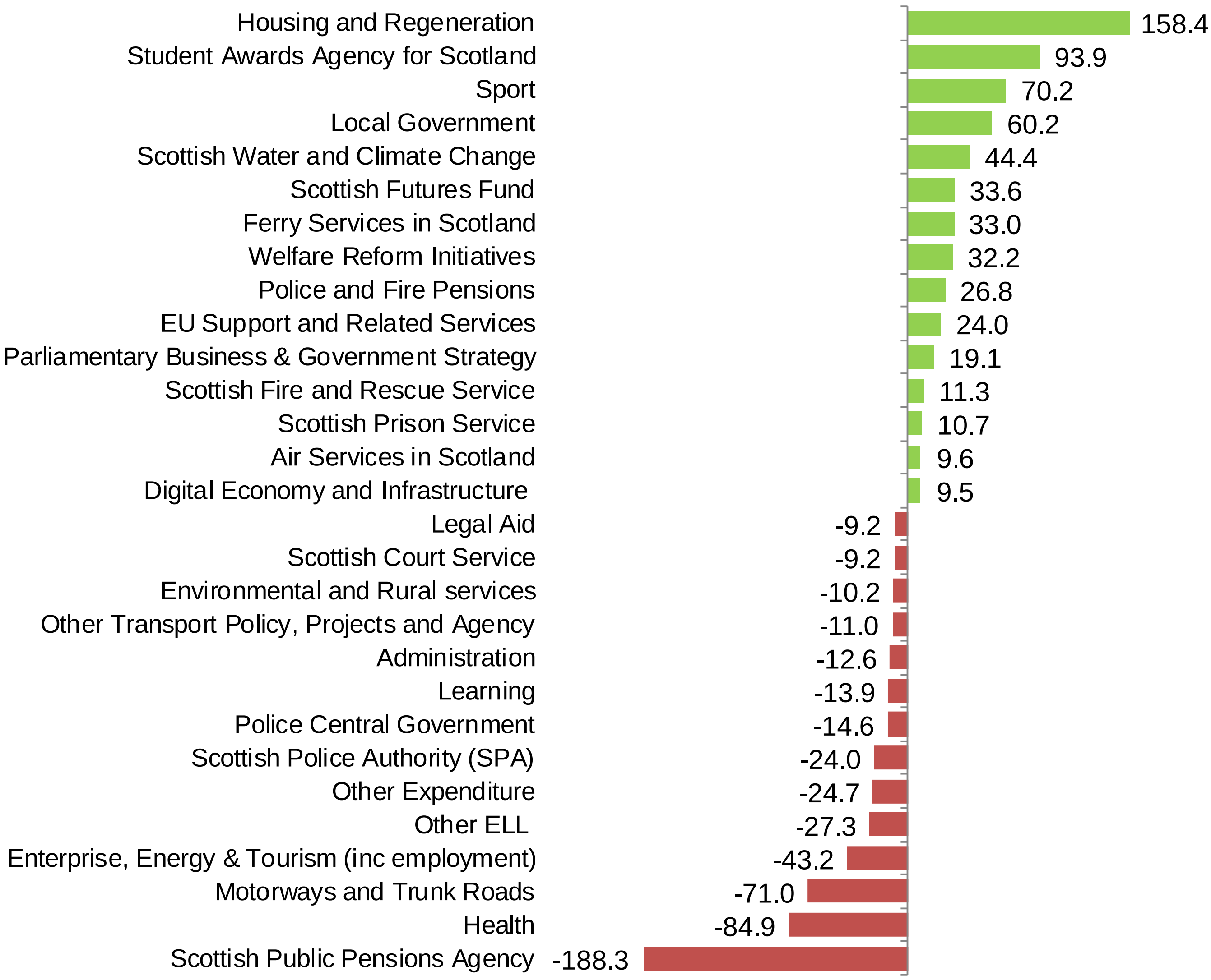
The amounts shown for individual portfolios total £552m over the three year period, compared with a total of £632m available, according to the figures set out in the summary table 1.01 (p2). This would imply that there are further sums to be allocated through this mechanism. In 2014-15, a total of £209.8m appears to have been allocated, compared to the £182m available according to the summary table 1.01. The Scottish Government has indicated that it would plan to carry forward some of the 2013-14 allocation to address this.

REAL TERMS INCREASES AND DECREASES, LEVEL 2

Figure 7 presents the largest real terms level 2 budget lines increases and decreases in 2014-15 on the previous financial year. Only increases and decreases above £9m have been included. Points to note are as follows:

- Housing and Regeneration sees the largest increase in 2014-15. However, the figures contained within the Draft Budget do not include the Stage 3 Budget Bill amendments for 2013-14 (Scottish Government 2013a, p138), which means that the actual increase is lower than presented.
- The Student Awards Agency for Scotland (SAAS) has the second largest increase which is largely a technical change with no impact on discretionary spending.
- Sport increases due to increased funding for delivering the Commonwealth Games.
- The largest decrease comes in the Scottish Public Pensions Agency (SPPA) budget and reflects updated forecasts for 2014-15. This is an AME budget and does not impact on the discretionary spend of the Scottish Government.
- The Health budget also shows a fall of £84.9m, but this represents a small change (-0.7%) given the overall size of the health budget.

Figure 7: Largest real terms changes 2013-14 to 2014-15, £m



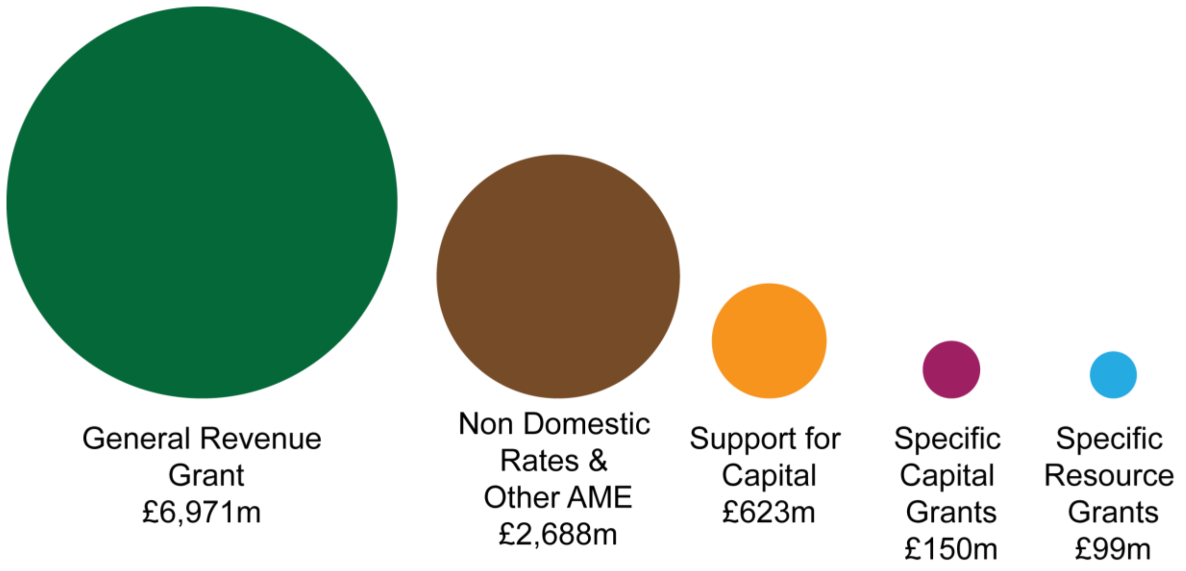
LOCAL GOVERNMENT

This section of the briefing sets out the key elements of the local government portfolio. A more detailed briefing focussing on the local government portfolio will be published in due course, to support the Local Government and Regeneration Committee's budget scrutiny.

TOTAL LOCAL GOVERNMENT BUDGET

The total allocation to local government in 2014-15 will be £10,531.4m. Figure 8 shows how the 2014-15 local government budget is composed. The Scottish Government guarantees the combined general revenue grant and distributable non-domestic rate income figure, approved by Parliament, to each local authority. A drop in non-domestic rate income is compensated for by an increase in general revenue grant and vice versa.

Figure 8: 2014-15 Local Government settlement



LOCAL GOVERNMENT SHARE OF THE OVERALL BUDGET AND REAL TERMS CHANGES

Tables 2 and 3 below set out the allocations to local government in cash and real terms, and as a percentage of the total Scottish Budget.

Table 2: Local Government share of the total budget

	2013-14	2014-15	2015-16
Local Government TME (£m)	10,274.8	10,531.4	10,608.2
Scottish Government TME (£m)	34,681.0	35,407.6	35,998.5
LG TME share of overall budget	29.6%	29.7%	29.5%

Table 3: Local Government budget – real terms changes

	2013-14	2014-15	2015-16
Local Government TME (real) (£m)	10,274.8	10,335.1	10,226.3
Annual change (£m)		60.3	-108.8
Annual change (%)		0.6%	-1.1%

COUNCIL TAX FREEZE AND OTHER COMMITMENTS

The Draft Budget states that the funding package for local government:

> "will be focussed on delivery of our joint priorities of growing the Scottish economy and protecting front-line services and the most vulnerable in our society, including through a greater focus on prevention measures and reform of public services."

As in previous years, in order to access the full amount of the funding package, each local authority will need to "agree formally to work with the Scottish Government" to:

- freeze the council tax;
- maintain teacher numbers in line with pupil numbers; and
- secure places for all probationers, who require one, under the teacher induction scheme.

The Scottish Government is providing an additional £70m of funding in 2014-15 to freeze the council tax at the previous year's level. However, since the freeze is based on 2007-08 levels of council tax, and the Scottish Government has provided £70m to councils' baseline allocations in each of the six years of the freeze, the actual cost of the council tax freeze for 2014-15 is £490m. In other words, £70m is the cost of freezing the council tax compared to not freezing it for one year, and £490m is the cost of freezing the council tax compared to not freezing it over a seven year period (i.e. 2008-09 to 2014-15).

Table 4 below sets out the total cost of the freeze in each year since its introduction, to 2015-16.

Table 4: Cost of the council tax freeze

Financial year	Cost per year (£m)
2008-09	70
2009-10	140
2010-11	210
2011-12	280
2012-13	350
2013-14	420
2014-15	490
2015-16	560
Total 2008-09 to 2015-16	**2,520**

NON-DOMESTIC RATES INCOME

Non-domestic rates income is currently the single largest source of revenue under the control of the Scottish Government, although the money is collected by local authorities. Table 5 below shows the forecast receipts from non-domestic rates in cash and real terms through to 2015-16. The supplement for large retailers who sell alcohol and tobacco products, which began on 1 April 2012 will continue to 2015.

Table 5: Non-Domestic Rates Income

	2013-14	2014-15	2015-16
NDRI (cash) (£m)	2,435.0	2,688.0	2,883.0
Cash terms annual change (£m)		253.0	195.0
Cash terms annual change (%)		10.4%	7.3%
NDRI (real)	2,435.0	2,637.9	2,779.2
Real terms annual change (£m)		202.9	141.3
Real terms annual change (%)		8.3%	5.4%

NATIONAL PERFORMANCE FRAMEWORK

As part of the 2007 Spending Review (Scottish Government 2007), the Scottish Government introduced a new outcomes-based National Performance Framework (NPF) to underpin the delivery of its agenda. In June 2008, the Government launched *Scotland Performs* (Scottish Government 2008), a website designed to present information on how Scotland is performing against the range of indicators outlined in the NPF. The NPF was "refreshed" in 2011.

Full details about the refreshed NPF can be found in SB 12/12: The National Performance Framework and Scotland Performs (Campbell 2012).

As part of scrutiny of the 2014-15 Draft Budget, parliamentary committees requested specific performance information from the Government. The Government has responded to each individual committee's requests for information in one summary document (Scottish Parliament Finance Committee 2013). In addition, the document provides a snapshot of performance against relevant indicators for each committee, as of 11 September 2013.

Each portfolio chapter of the Draft Budget also contains a section headed "National Outcomes", which set out which National Outcomes the portfolio has an impact on, and includes specific examples of how activity under the portfolio has contributed to the National Outcomes.

WELFARE REFORM

The Cabinet Secretary announced funding for measures to 'mitigate the worst impacts of the UK Government's welfare reforms'. Total funding for these measures will amount to 'at least £68 million' in 2014-15 (approximately 0.3% of DEL resource budget). This includes:

- £37.6 million for the Scottish Welfare Fund (SWF), introduced in April 2013 to replace 'Crisis Loans for Living Expenses' and 'Community Care Grants'.
- £23 million 'to fill the cut in funding from the UK Government for Council Tax Benefit successor arrangements, with an expectation that local government will contribute a further £17 million'.
- £7.6 million funding for 'Other Welfare Reform Mitigation' measures, such as providing funding for advice and support services.

During the Draft Budget announcement the Cabinet Secretary also committed £20 million from the **2013-14** budget to 'help those struggling the most with the costs of the bedroom tax' (Scottish Parliament, Official Report, 2013). This funding will assist councils in dealing with the impact of welfare reform, supplementing UK Department for Work and Pensions (DWP) 'discretionary housing payments' (DHPs). Half of the £20 million will come from a transfer from the demand-led Home Energy Efficiency Programmes for Scotland scheme, the rest is from a combination of savings from the enterprise bodies and other demand-led budgets.

PUBLIC SECTOR PAY

The Scottish Government published its public sector pay policy for 2014-15 and 2015-16 alongside the 2014-15 draft budget. This pay policy directly affects the pay of Scottish Government staff, and the staff of around 50 public bodies, which together account for around 6% of the Scottish public sector (around 30,000 staff). Other parts of the public sector, such as local government and the NHS are not covered by the Scottish Government's pay policy and determine pay separately.

The pay policy covers both 2014-15 and 2015-16. The main features of the pay policy are:

- A one per cent cap on the cost of the increase in basic pay for staff earning above £21,000 – within this, there is discretion to award higher pay increases to particular groups of staff, so long as this is offset by lower increases for other groups, such that the overall increase in basic pay costs is no more than one per cent; there is also discretion to award higher increases in one year of the policy period, provided this is offset by a lower increase in the other year.

- A minimum basic pay increase of £300 for those earning less than £21,000, before progression payments (to be awarded on a pro-rata basis for part-time staff); the costs of this are not included in the 1% cap.

- A continued commitment to paying a Scottish living wage (currently at £7.45 per hour) for the duration of the Parliamentary term.

- A lifting of the pay freeze for those earning more than £80,000 that had been in place in the previous three years.

- A continued suspension of non-consolidated performance related pay (bonuses).

- Discretion for individual employers to reach agreements relating to pay progression, whereby employees progress through set pay bands on an annual basis, regardless of the basic pay settlement – this is in contrast to the UK Government's proposed end to pay progression.

- A continued commitment to no compulsory redundancies, to be negotiated by individual employers in exchange for agreements on workforce flexibilities and efficiencies where appropriate.

CARBON ASSESSMENT

The Climate Change (Scotland) Act 2009 requires the Scottish Government to publish an assessment of the impact of its budgetary expenditure on Scottish emissions of greenhouse gases. The statement accompanying the Budget (Scottish Government 2013b) gives an estimate that **total emissions resulting from the 2014-15 Draft Budget will be 6.6 million tonnes CO_2-equivalent ($MtCO_2e$).**

The assessment measures the "first round" effects but not the subsequent impact of the use of these public services. For example, the beneficial impacts of spend on energy efficiency measures, or the potential effects of road building on traffic levels, are not captured in these calculations. The assessment includes indirect and imported emissions that are generated in producing the goods and services that Government purchases.

More than one third (36.5%) of the Scottish Government's carbon footprint is caused by the use of energy, water and waste services. This is followed by manufactured goods (18.5%) and transport and communication services (16.6%).

The carbon assessment accompanying the 2013-14 Draft Budget estimated emissions at 7.3 Mt. The fall from 7.3 Mt to 6.6 Mt represents a reduction of 9.6% between the 2013-14 and 2014-15 Draft Budgets.

The fall in emissions is mainly attributable to the use of updated information on the intensity of emissions (emissions per unit of spending). For example, the previous (2013-14) carbon assessment showed every £1m of spending (adjusted to 2014-15 prices) on public administration directly generated 48,500 tonnes of CO_2 equivalent. The current assessment shows the same spending now directly generates only 43,400 tonnes of CO_2 equivalent, a fall of 10.5%.

As TME has increased by 0.2% in real terms it is reasonable to suggest the volume of goods and services purchased increased between the 2013-14 and 2014-15 Draft Budgets. A fall in emissions, whilst at the same time increasing consumption, would imply a significant gain in efficiency.

Caution must be taken in interpreting the changes between the Draft Budgets. Both assessments rely on measures of emissions per unit spending for the whole of the UK applied to the pattern of spending outlined in the Draft Budgets. This means that efficiency of Scottish activities relative to the rest of the UK is not fully captured. For example, the direct emissions per unit of spending on health services, education or electricity in Scotland are assumed to be the same as the UK as a whole.

The previous (2013-14) assessment was based on UK figures for emissions per unit of spending from 2007 (published in 2010). The latest assessment is based on UK figures from 2009 (published in 2013) and the classification and measurement of goods and services changed significantly.

The latest data shows that the carbon footprint for Scotland as a whole in 2011 was 54.3 $MtCO_2$ equivalent after adjusting for trading in the EU Emissions Trading Scheme. This was a 2.9% decrease on the previous year. This figure is not directly comparable with the Scottish Government carbon footprint figure above.

EQUALITY STATEMENT

Equality Statements have accompanied each Draft Budget document since the publication of the 2010-11 Draft Budget in September 2009. According to the Scottish Government, Equality Budget Statements (EBS) are now an integral part of its budget process, which include equality impact assessments for spending plans in each portfolio. These assessments examine the impact of budget decisions on protected characteristic groups and other relevant groups, including women, disabled people, Scotland's oldest and youngest adults, ethnic groups, and people with lesbian, gay, bisexual and transgender identities. The impact of budget decisions on those on low incomes is also discussed throughout the Statement (Scottish Government, 2013c).

Chapter 11 of this year's Equality Statement provides an overview of the Draft Budget by equality characteristic. The Government acknowledges that a 'relative lack of data and information available in respect of religion, sexual orientation and gender reassignments has limited the extent to which the budget statement has been able to cover the impacts of proposals on these characteristics'. The following table therefore summarises some measures which the Government states will have a positive impact on equalities groups:

Table 6: Measures having positive impact on equalities groups

Gender	• Mitigating UK welfare reforms (which will disproportionately impact on low-income women and children) • Positive action programmes (eg. Energy Skills Scotland) to address the under-representation of women employed in particular sectors • Funding programmes aimed at reducing violence against women
Disability	• Employment opportunities for the most vulnerable 16-24 year olds through, for example, Community Jobs Scotland • Narrowing the 'health inequality gap' faced by people with a learning disability through additional funding for health boards
Ethnicity	• Personalised educational support through 'Getting it Right for Every Child' can benefit ethnic minority groups
Age	• Income maximisation for older people, for example through increased spend on concessionary fares and free personal care • Spending on 'Opportunities for All' guarantees for young people, for example MA schemes and Community Jobs Scotland
Socio-economic	• Scottish Government's on-going support for lower paid workers • 20,000 new affordable homes for social rent over the five years to 2015-16 • No tuition fees, and access to £7,250 'minimum income' guarantee for Scottish students will 'help people with low incomes

As well as assessing the likely impact of future spending plans, this year's Equality Statement revisits the 2013-14 statement to check progress made against some stated goals. For example, within the Justice portfolio two commitments were made last year to assess the modernisation of the women's prison estate. Equality Statement 2014-15 provides an update on progress made towards these since September 2012 (see pages 23 and 24).

ANNEX

Table 7 – Allocation of TME, DEL and AME, cash terms

£m	2013-14	2014-15	2015-16
Total DEL of which:	29,028.6	29,584.4	29,886.1
DEL Resource	26,477.6	26,639.6	26,605.7
DEL Capital	2,551.0	2,944.8	3,280.4
AME	5,652.4	5,823.2	6,112.4
Total Managed Expenditure	**34,681.0**	**35,407.6**	**35,998.5**

Table 8 – Allocation of TME, DEL and AME, real terms (2013-14 prices)

£m	2013-14	2014-15	2015-16
Total DEL of which:	29,028.6	29,032.8	28,810.3
DEL Resource	26,477.6	26,142.9	25,648.0
DEL Capital	2,551.0	2,889.9	3,162.3
AME	5,652.4	5,714.6	5,892.3
Total Managed Expenditure	**34,681.0**	**34,747.4**	**34,702.6**

Table 9 – Percentage change in TME, DEL and AME in real terms

%	2013-14 to 2014-15	2014-15 to 2015-16
Total DEL of which:	0.0	-0.8
DEL Resource	-1.3	-1.9
DEL Capital	13.3	9.4
AME	1.1	3.1
Total Managed Expenditure	**0.2**	**-0.1**

Table 10 – DEL by portfolio in cash terms (£m)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Health and Wellbeing	11,887.1	12,099.3	12,063.2	1.8
Local Government	7,839.8	7,843.4	7,725.2	0.0
Infrastructure, Investment & Cities	2,398.3	2,680.5	2,858.4	11.8
Education and Lifelong Learning	2,620.1	2,675.3	2,774.6	2.1
Justice	2,552.2	2,589.1	2,615.3	1.4
Rural Affairs & the Environment	540.8	559.2	592.4	3.4
Finance, Emp. & Sus. Growth	536.0	504.0	614.1	-6.0
Culture & External Affairs	246.8	231.2	235.9	-6.3
Administration	206.9	198.0	201.6	-4.3
Crown Office & Procurator Fiscal	108.1	108.7	109.4	0.6
Scottish Parl. & Audit Scotland	92.5	95.7	96.0	3.5
Total	**29,028.6**	**29,584.4**	**29,886.1**	**1.9**

Table 11 – DEL by portfolio in real terms (£m in 2013-14 prices)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Health and Wellbeing	11,887.1	11,873.7	11,629.0	-0.1
Local Government	7,839.8	7,697.2	7,447.1	-1.8
Infrastructure, Investment & Cities	2,398.3	2,630.5	2,755.5	9.7
Education and Lifelong Learning	2,620.1	2,625.4	2,674.7	0.2
Justice	2,552.2	2,540.8	2,521.2	-0.4
Rural Affairs & the Environment	540.8	548.8	571.1	1.5
Finance, Emp. & Sus. Growth	536.0	494.6	592.0	-7.7
Culture & External Affairs	246.8	226.9	571.1	-8.1
Administration	206.9	194.3	194.3	-6.1
Crown Office & Procurator Fiscal	108.1	106.7	105.5	-1.3
Scottish Parl. & Audit Scotland	92.5	93.9	92.5	1.5
Total	**29,028.6**	**29,032.8**	**28,810.3**	**0.0**

Table 12 – DEL RESOURCE by portfolio in cash terms (£m)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Health and Wellbeing	11,468.6	11,841.3	11,874.1	3.2
Local Government	7,287.6	7,070.2	6,907.9	-3.0
Education and Lifelong Learning	2,496.5	2,559.6	2,680.1	2.5
Justice	2,465.6	2,543.0	2,524.3	3.1
Infrastructure, Investment & Cities	1,238.7	1,158.5	1,180.1	-6.5
Rural Affairs & the Environment	480.2	484.0	491.2	0.8
Finance, Emp. & Sus. Growth	421.2	376.7	337.1	-10.6
Culture & External Affairs	223.7	216.2	216.2	-3.4
Administration	201.8	192.9	196.5	-4.4
Crown Office & Procurator Fiscal	104.5	105.1	105.8	0.6
Scottish Parl. & Audit Scotland	89.2	92.1	92.4	3.3
Total	**26,477.6**	**26,639.6**	**26,605.7**	**0.6**

Table 13 – DEL RESOURCE by portfolio in real terms (£m in 2013-14 prices)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Health and Wellbeing	11,468.6	11,620.5	11,446.7	1.3
Local Government	7,287.6	6,938.4	6,659.2	-4.8
Education and Lifelong Learning	2,496.5	2,511.9	2,583.6	0.6
Justice	2,465.6	2,495.6	2,433.4	1.2
Infrastructure, Investment & Cities	1,238.7	1,136.9	1,137.6	-8.2
Rural Affairs & the Environment	480.2	475.0	473.5	-1.1
Finance, Emp. & Sus. Growth	421.2	369.7	325.0	-12.2
Culture & External Affairs	223.7	212.2	208.4	-5.2
Administration	201.8	189.3	189.4	-6.2
Crown Office & Procurator Fiscal	104.5	103.1	102.0	-1.3
Scottish Parl. & Audit Scotland	89.2	90.4	89.1	1.3
Total	**26,477.6**	**26,142.9**	**25,648.0**	**-1.3**

Table 14 – DEL CAPITAL by portfolio in cash terms (£m)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Infrastructure, Investment & Cities	1,159.6	1,522.0	1,678.3	31.3
Local Government	552.2	773.2	817.3	40.0
Health & Wellbeing	418.5	258.0	189.1	-38.4
Finance, Emp. & Sus. Growth	114.8	127.3	277.0	10.9
Education & Lifelong Learning	123.6	115.7	94.5	-6.4
Rural Affairs & the Environment	60.6	75.2	101.2	24.1
Justice	86.6	46.1	91.0	-46.8
Culture & External Affairs	23.1	15.0	19.7	-35.1
Administration	5.1	5.1	5.1	0.0
Crown Office & Procurator Fiscal	3.6	3.6	3.6	0.0
Scottish Parl. & Audit Scotland	3.3	3.6	3.6	9.1
Total	**2,551.0**	**2,944.8**	**3,280.4**	**15.4**

Table 15 – DEL CAPITAL by portfolio in real terms (£m in 2013-14 prices)

Portfolio	2013-14	2014-15	2015-16	Change 2014-15 on 2013-14 (%)
Infrastructure, Investment & Cities	1,159.6	1,493.6	1,676.7	28.8
Local Government	552.2	758.8	816.5	37.4
Health & Wellbeing	418.5	253.2	188.9	-39.5
Finance, Emp. & Sus. Growth	114.8	124.9	276.7	8.8
Education & Lifelong Learning	123.6	113.5	94.4	-8.1
Rural Affairs & the Environment	60.6	73.8	101.1	21.8
Justice	86.6	45.2	90.9	-47.8
Culture & External Affairs	23.1	14.7	19.7	-36.3
Administration	5.1	5.0	5.1	-1.9
Crown Office & Procurator Fiscal	3.6	3.5	3.6	-1.9
Scottish Parl. & Audit Scotland	3.3	3.5	3.6	7.1
Total	**2,551.0**	**2,889.9**	**3,277.2**	**13.3**

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Finance Committee

23rd Meeting, 2013 (Session 4), Wednesday 25 September 2013

Report by the Auditor General for Scotland – Developing Financial Reporting in Scotland

1. In June 2013 the Auditor General for Scotland (AGS) published a report, *Developing Financial Reporting in Scotland*.

2. The purpose of this paper is to provide the Committee with information in advance of its oral evidence session on the report where it will hear from—

- Caroline Gardner, Auditor General for Scotland;
- Gemma Diamond, Project Manager, Performance Audit Group, Audit Scotland; and
- Mark Taylor, Assistant Director, Audit Services Group, Audit Scotland.

3. A short paper from the AGS which provides a summary of key information relating to the report is attached at Annexe A.

4. The report itself is attached at Annexe B.

5. The Committee is invited to consider the attachments at Annexes A and B in its oral evidence session with the AGS.

Jim Johnston
Clerk to the Finance Committee

Annexe A

SCOTTISH PARLIAMENT FINANCE COMMITTEE

WEDNESDAY 25 SEPTEMBER 2013

REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

DEVELOPING FINANCIAL REPORTING IN SCOTLAND

Introduction

The report by the Auditor General on developing financial reporting in Scotland was published on 4 July 2013. It is a contribution to the Scottish Government's development of its financial reporting in preparation for the new powers introduced by the Scotland Act 2012.

Overview

Transparent government accounts are important. They allow the public and the Scottish Parliament to hold the government to account, they can improve confidence in the public finances and provide important information to support decision-making. The Scottish Government's financial reporting framework provides a sound base and has continued to evolve since devolution, but the changing financial context means there is scope for the Scottish Government to further develop its financial reporting.

The public reporting of financial information can take a number of forms, including audited annual accounts, budget documents and supporting materials, published plans, and statements to Parliament. Good financial reporting involves getting the right balance between these different methods, and ensuring that overall financial reporting meets users' needs. The audit process contributes to this by independently confirming the reliability of the annual accounts.

Much of the Government's financial reporting and the Scottish Parliament's own consideration focuses on spending set out in annual resource and capital budgets. This is a critical area and will remain so. However, the implementation of the 2012 act will bring a new focus on revenue. The report illustrates why publically reported information on the devolved Scottish public sector's assets and liabilities is also important for accountability and decision making, and discusses some of the issues they raise for the public finances.

Report findings and recommendation

Part 1 of the report sets out why recent developments, at both a national and international level, increase the importance of the devolved public sector having good-quality financial reporting. Key issues discussed include the new financial powers under the Scotland Act 2012 and aspects of the global financial crisis.

Part 2 of the report examines some of the issues and risks for future budgets associated with the more significant assets and liabilities held by Scottish public bodies. These include the longer-term implications of investment and associated funding decisions, the inherent uncertainty in the valuation of some liabilities and the financial risks that may arise if publicly funded bodies get into financial difficulties.

The report highlights that there is currently no published picture of the assets and liabilities of the devolved public sector as a whole. Part 3 of the report also identifies four particular areas for the Scottish Government to consider how best to develop its financial reporting:

- ***The long-term consequences of funding assets from borrowing or public private partnerships***

Reductions in capital budgets mean the devolved public sector is increasingly using borrowing and public private partnerships to fund capital projects and build public assets. This allows repayments to be made over the life of the asset. The Scottish Government will need to demonstrate that its investment plans are affordable, prudent and sustainable, and to ensure that any future borrowing is reported transparently.

- ***How forecasts and other estimates are made***.

New tax-raising powers mean that the Scottish Government will, in time, bear the risk of tax receipts being more or less than forecast. It is important that the Scottish Government and the Office for Budget Responsibility can show that forecasts are soundly based and that the reasons for any variances between actual and estimated tax receipts raised are clear. In May 2013, the Cabinet Secretary for Finance, Employment and Sustainable Growth indicated that Scotland would require its own independent forecasting unit. Similarly the Scottish Government should be able to make information available about the key assumptions and risks associated with other valuations that appear in audited accounts, such as pension liabilities and provisions.

- ***How potential liabilities are assessed and monitored***.

Audited accounts include the identification of potential future liabilities, which vary in their likelihood of occurring. The Scottish Government may need to ensure the continuity of vital public services if a third party provider is failing. It is important there is clear monitoring and reporting of these potential liabilities, including an assessment of the risks arising.

- ***The clarification of complex accounting issues***.

The audited accounts of the Scottish Government contain several complex areas, for example the accounting treatment of student loans, that although consistent with the applicable accounting rules, can be difficult for the Scottish Parliament and the public to understand. Providing more transparent information on these areas and the future reporting of budget underspends within the new arrangements arising from the Scotland Act, would better support decision-making and enable effective scrutiny.

The report recommends that with the changing financial environment this would be a good time for the Scottish Government to review, in discussion with the Scottish Parliament, the current financial reporting arrangements.

Public Audit Committee consideration

On 4 September 2013 the Auditor General for Scotland briefed the Public Audit Committee on the report. The Committee also took evidence from the Permanent Secretary and the Director General Finance of the Scottish Government. The Public Audit Committee agreed to note the evidence, given that it will receive a progress report from Audit Scotland towards the end of 2014.