

The Scottish Parliament
Pàrlamaid na h-Alba

Finance Committee

9th Report, 2012 (Session 4)

Report on Draft Budget 2013-14

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CONTENTS

Remit and membership

Report	1
INTRODUCTION AND BACKGROUND	1
Strategic context for Draft Budget 2013-14	2
<i>Spending Priorities</i>	4
<i>National Performance Framework (NPF)</i>	5
Sustainable Economic Growth	8
<i>Capital Investment</i>	8
<i>"Picking Winners"</i>	15
<i>Access to Capital</i>	17
<i>Housing</i>	17
<i>Broadband</i>	19
<i>Regeneration</i>	20
<i>Skills and employment</i>	20
<i>Non-Domestic Rates Income (NDRI)</i>	23
<i>Public Sector Procurement</i>	24
Progress on Renewing Public Services	26
<i>Preventative Spending change funds</i>	26
<i>Commission on the Future Delivery of Public Services (Christie Commission)</i>	31
<i>McClelland Review of Information and Communications Technology (ICT) Infrastructure</i>	31
OTHER ISSUES	32
<i>Scotland Act 2012 Implementation</i>	32
<i>Active Travel</i>	33
<i>Equalities</i>	34
<i>Climate Change Targets</i>	37
<i>Access to Budget Information</i>	38

<i>Alternative Spending Proposals</i>	40
<i>Scottish Parliamentary Corporate Body (SPCB)</i>	40
<i>Audit Scotland</i>	41
CONCLUSION	43
ANNEXE A: EXTRACTS FROM THE MINUTES	44
ANNEXE B: INDEX OF ORAL EVIDENCE SESSIONS	46
ANNEXE C: INDEX OF WRITTEN EVIDENCE	46
ANNEXE D: OTHER SUBMISSIONS	47
ANNEXE E: REPORTS FROM OTHER COMMITTEES	48



The Scottish Parliament
Pàrlamaid na h-Alba

Finance Committee

Remit and membership

Remit:

1. The remit of the Finance Committee is to consider and report on-
 - (a) any report or other document laid before the Parliament by members of the Scottish Executive containing proposals for, or budgets of, public expenditure or proposals for the making of a tax-varying resolution, taking into account any report or recommendations concerning such documents made to them by any other committee with power to consider such documents or any part of them;
 - (b) any report made by a committee setting out proposals concerning public expenditure;
 - (c) Budget Bills; and
 - (d) any other matter relating to or affecting the expenditure of the Scottish Administration or other expenditure payable out of the Scottish Consolidated Fund.
2. The Committee may also consider and, where it sees fit, report to the Parliament on the timetable for the Stages of Budget Bills and on the handling of financial business.
3. In these Rules, "public expenditure" means expenditure of the Scottish Administration, other expenditure payable out of the Scottish Consolidated Fund and any other expenditure met out of taxes, charges and other public revenue.

(Standing Orders of the Scottish Parliament, Rule 6.6)

Membership:

Gavin Brown
Bruce Crawford (until 24 October 2012)
Kenneth Gibson (Convener)
Jamie Hepburn (from 25 October 2012)

John Mason (Deputy Convener)
Michael McMahon
Elaine Murray
Jean Urquhart

Committee Clerking Team:

Clerk to the Committee
Jim Johnston

Senior Assistant Clerk
Fergus Cochrane

Assistant Clerk
Alan Hunter

Committee Assistant
Parminder Kaur



The Scottish Parliament
Pàrlamaid na h-Alba

Finance Committee

9th Report, 2012 (Session 4)

Report on Draft Budget 2013-14

The Committee reports to the Parliament as follows—

INTRODUCTION AND BACKGROUND

1. The *Draft Budget 2013-14*¹ was published by the Scottish Government (SG) on 20 September 2012 and this report details the findings of the Finance Committee's scrutiny of these proposals including a number of recommendations for consideration by the SG in advance of the publication of the Budget Bill in January 2013. The Committee received submissions from each of the subject committees, the Equal Opportunities Committee and the European and External Relations Committee and these have been published on the Parliament's website. These reports have been useful in informing the Committee's scrutiny of the draft budget.
2. The Committee has also conducted its own detailed budget scrutiny with a focus on whether spending decisions align with the Scottish Government's Purpose of increasing sustainable economic growth. The Committee published a call for evidence prior to summer recess and all submissions are available via the Committee's website². The Committee also held a number of oral evidence sessions including a roundtable discussion with representatives from the David Hume Institute (DHI) and with Professor John Kay.
3. The Committee held an external meeting in Hawick where it held workshop sessions with local businesses and organisations prior to taking evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth.
4. Briefings were also provided to the Committee by its Budget Adviser³, Professor David Bell and by the Financial Scrutiny Unit (FSU)⁴. The Committee

¹ [Scottish Government *Draft Budget 2013-14*.](#)

² [Scottish Parliament Finance Committee, *Written Submissions on Draft Budget 2013-14*.](#)

³ [Professor David Bell, *Report on Draft Budget 2012-13*.](#)

⁴ [Scottish Parliament Financial Scrutiny Unit, *Briefing on Draft Budget 2013-14*.](#)

would like to thank all those involved in providing evidence to support the budget scrutiny process.

5. The report focuses on three key areas—

- Strategic context for Draft Budget 2013-14;
- Sustainable economic growth; and
- Progress on Renewing Public Services.

6. The report then looks at a number of other issues including the implementation of the Scotland Act 2012, equalities, climate change targets and access to budget information.

STRATEGIC CONTEXT FOR DRAFT BUDGET 2013-14

7. Tables 1 and 2 below set out the total Scottish Departmental Expenditure Limit (DEL) budget in both cash terms and real terms. The Draft Budget document contains two separate sets of figures – the Treasury allocations (as set out in Table 1, on page 2 of the Draft Budget), and the budget available to the Scottish Government (as set out in Annex A of the Draft Budget). The Committee notes that the overall DEL allocation from HM Treasury shows a cash terms reduction of 0.6%, and a real terms reduction of 3.0%, as set out in Table 1 below.

Table 1: Scottish DEL budget – Treasury Allocations

£ million	2012-13	2013-14	Difference 2013-14 on 2012-13	Difference 2013-14 on 2012-13 (%)
Treasury allocations – cash terms	28,603	28,441	-162	-0.6%
Treasury allocations – real terms (2012-13 prices)	28,603	27,748	-855	-3.0%

Source: Table 1, Draft Budget 2013-14

8. In a letter to the Committee, the Cabinet Secretary explained the differences between the Treasury allocation and the budget available to the Scottish Government: “As a result of carrying forward money from 2011-12 and 2012-13 and extracting best value from our capital programmes, we are able to plan to spend (within the parameters of the budget exchange mechanism) on a slightly different profile from that originally allocated to us by Treasury for 2013-14.”⁵ The Budget Adviser also points out that: “the cash spend will actually be

⁵ [Correspondence from John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener of the Finance Committee, 25 September 2012.](#)

£28,538m through the operation of the Budget Exchange Mechanism, which permits the devolved government to carry forward past underspends.”⁶

9. The resulting Scottish DEL budget, which is the basis for the figures presented in the Draft Budget, is shown in Table 2. This shows a cash terms increase of 1.0%, and a real terms reduction of 1.5%.

Table 2: Scottish DEL budget – budget available to Scottish Government

£ million	2012-13	2013-14	Difference 2013-14 on 2012-13	Difference 2013-14 on 2012-13 (%)
Scottish Government budget -	28,259	28,538	+279	+1.0%
Scottish Government budget – real terms (2012-13 prices)	28,259	27,842	-417	-1.5%

Source: Annex A, Draft Budget 2013-14

10. In addition to a declining budget the SG is also faced with considerable economic uncertainty as the European and UK economies struggle to recover from the 2008 financial crisis. The Cabinet Secretary stated in evidence to the Committee—

“the settlement that we received in the UK Spending Review is the toughest since devolution. Over the four-year period between 2010-11 and 2014-15, our budget will have been reduced by more than 11 per cent in real terms and, within that, our capital budget will have been reduced by a third. The position in 2013-14 is particularly challenging.”⁷

11. The scale of the challenge is emphasised by the Scottish Building Federation (SBF) in its written submission on the state of the construction industry—

“In the past three years, almost 600 construction businesses have gone bust, with 196 construction firms bankrupted in the 12 months to June alone, a rise of 17% on the previous 12 months, 54% on two years ago, and 161% on the 12 months to June 2009.”⁸

12. The Scottish Property Federation (SPF) points out that over the last 12 months the Registers of Scotland has recorded just under £1.8 billion in commercial property sales compared to the high of £6.3 billion during 2006-7.

13. **The Committee recognises that continuing to meet its budgetary commitments in these circumstances remains a significant challenge for the Scottish Government.**

⁶ [Professor David Bell, Report on Draft Budget 2012-13.](#)

⁷ [Scottish Parliament Finance Committee. Official Report, 5 November, Col 1797.](#)

⁸ [Scottish Property Federation. Written submission to the Finance Committee.](#)

Spending Priorities

14. Within this challenging backdrop the SG states that: “The proposals set out in this Draft Budget 2013-14 are driven by the Scottish Government’s Purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.”⁹ It goes on to state that the fundamental priorities of Draft Budget 2013-14 are—

- to accelerate economic recovery, create jobs and secure new opportunities through the low-carbon economy;
- to continue the decisive shift to more preventative approaches to public service delivery and deliver our wider public service reform programme; and
- to maintain our commitment to a Social Wage for the people of Scotland at a time of acute pressures on household incomes.

15. However, the Scottish Council for Development and Industry (SCDI) states in written evidence that: “it is difficult to discern a pattern of spending which aligns with successive Scottish Executive’s/Scottish Government’s top priority/Purpose of increasing sustainable economic growth.”¹⁰ In particular, it questions the decision to prioritise the protection of the health budget at the expense of other spending areas which directly and indirectly increase sustainable economic growth. On a similar basis the Centre for Public Policy for Regions (CPPR) briefing on the draft budget points out that—

“Spending on the, already very large, NHS resource budget has again been favoured at the expense of others, securing an extra £263 million. Whilst this meets an election pledge of passing on the UK Health Barnett consequential, it is less clear how it helps secure faster economic growth.”¹¹

16. In his report on the draft budget the Budget Adviser comments—

“Given the relative changes in other budgets, it is difficult to avoid the conclusion that maintaining current spending on health is currently the main priority of the Scottish Government. Nevertheless, even with continued large budget increases, it is clear that the health budget is under strain”¹²

17. The Royal Society of Edinburgh (RSE) states that: “It would be useful to see a cost-benefit analysis of the Scottish Government’s spending decisions against its stated core objective of sustainable economic growth.”¹³ The Scottish Council for Voluntary Organisations (SCVO) argues that: “Stimulating economic growth for its own sake is a model that has failed, and we need to take a long-

⁹ [Scottish Government. *Draft Budget 2012-13*, P.1.](#)

¹⁰ [Scottish Council for Development and Industry. *Written submission to the Finance Committee*.](#)

¹¹ [Centre for Public Policy for Regions. *Briefing on Draft Budget 2012-13*.](#)

¹² [Professor David Bell, *Report on Draft Budget 2012-13*.](#)

¹³ [Royal Society of Edinburgh. *Written submission to the Finance Committee*.](#)

term, holistic approach to the economy” which encompasses a range of social, environmental and economic outcomes.¹⁴

18. In oral evidence to the Economy, Energy and Tourism (EET) Committee SCVO also stated that: “Given the headline figures - £9 million on enterprise and £263 million on health – it does not look particularly like a budget for growth and enterprise...the key is how we create more jobs in the economy.”
19. In response to questioning from the Committee the Cabinet Secretary disagreed with the view that maintaining health spending is the main priority of the SG. He again emphasised that the SG’s “overriding priority is to deliver faster and more sustainable economic growth” but that other “priorities will have to be supported to ensure that we also deliver the quality of public services that the public expect.”¹⁵
- 20. The Committee asks whether the SG has carried out any cost-benefit analysis or any other economic modelling of the contribution which its spending priorities make towards sustainable economic growth and if so, to provide details of this analysis.**

National Performance Framework (NPF)

21. A recurring issue for this Committee and previous Finance Committees has been the lack of any linkage between spending and outcomes in either the draft budget document or the NPF. This is an issue which has again been raised in evidence during the current budget process. For example, the RSE points out in its written submission that the NPF “does not link spending to outputs; nor does the Framework act as a mechanism through which choices between priority areas can readily and objectively be made.”¹⁶
22. The RSE argues that given the increasing pressure on the public finances and the consequent need to prioritise some funding streams and projects over others, the current process is not fit for purpose. It continues to call for a Treasury function to be created within the SG “to be tasked with undertaking a full cost-benefit analysis and opportunity cost of assessment of all policy options. Such analysis is the only means through which priorities can be rationally set and justified.”
23. The Committee raised the issue of a challenge function in its report on last year’s draft budget and the SG responded that it: “adopts a strategic approach to policy development and decision making throughout its activities.”¹⁷ These include its programme for government and economic strategy.
24. The Committee also sought clarification from the SG during last year’s budget process on whether the NPF continues to be fully integrated into the Scottish Government’s spending plans over the spending review period and how this works in practice. The SG stated in its response that the NPF is “fully integrated

¹⁴ [Scottish Council for Voluntary Organisations. Written submission to the Finance Committee.](#)

¹⁵ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1801.](#)

¹⁶ [Royal Society of Edinburgh. Written submission to the Finance Committee.](#)

¹⁷ [Scottish Government. Response to the Finance Committee’s Report on 2012-13 Draft Budget.](#)

with our spending plans” and a “consistent reference to the National Performance Framework is important as some outcomes will take a longer period to achieve.”¹⁸ However, the FSU briefing on this year’s draft budget states that—

“In Spending Review 2011, each portfolio chapter included a section on ‘Our National Outcomes’, which detailed how the portfolio contributed to the specific National Outcomes in the National Performance Framework. Draft Budget 2013-14 does not include this section in the portfolio chapters and the National Outcomes are only mentioned briefly in the narrative accompanying four portfolios.”¹⁹

25. The SCDI states in its written submission that it: “has not seen much evidence that the National Performance Framework is integrated with the spending plans of the Scottish public sector including the Scottish Government.” It argues that it should “be clearer how the Scottish Government is prioritising in its spending decisions between the 50 indicators currently in Scotland Performs.”²⁰ The Scottish Chambers of Commerce (SCC) suggests that government policies including the draft budget should be measured against the Government’s Purpose. In contrast, SCVO states that the NPF “should be reconfigured to encompass wellbeing, social inequality and environmental impact” and “progress against the NPF needs to be more open and transparent, being regularly reported on and scrutinised, particularly in Parliament.”²¹ The Rural Affairs, Climate Change and Environment (RACCE) Committee notes that the SG “was unable to provide systematic evidence of linking funding options back to the outcomes” in the NPF.²²
26. The Scottish Government has provided the Health and Sport Committee with a document linking spending to its “HEAT” targets²³ which provides a helpful example of an attempt at providing a linkage between spend and targets.
27. The Economy, Energy and Tourism (EET) Committee “calls on the Scottish Government to set out how the budgetary allocations will contribute to the purpose targets”²⁴ while the RACCE Committee recommends that prior to next year’s budget process the SG “identify for each main funding stream the main economic and/or environmental outcomes and indicators in the NPF to which it is contributing.”²⁵
28. In response to some of these concerns the Cabinet Secretary stated: “I am at a bit of a loss to think how it could be more transparent. The NPF is available on

¹⁸ Ibid

¹⁹ [Scottish Parliament Financial Scrutiny Unit. *Briefing on Draft Budget 2013-14.*](#)

²⁰ [Scottish Council for Development and Industry. *Written submission to the Finance Committee.*](#)

²¹ [Scottish Council for Voluntary Organisations. *Written submission to the Finance Committee.*](#)

²² [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Report on the Scottish Government Draft Budget 2013-14, P.2.*](#)

²³ [Scottish Government 2013-13 HEAT Targets.](#)

²⁴ [Scottish Parliament Economy, Energy and Tourism Committee. *Report on the Scottish Government Draft Budget 2013-14, P.1.*](#)

²⁵ [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Report on the Scottish Government Draft Budget 2013-14, P.3.*](#)

the Government's website every minute of the day. Whenever a piece of data changes, the website is changed."²⁶

29. The FSU Briefing, [Scotland Performs – September 2012 update](#), summarises the data in Scotland Performs. In terms of the Purpose Targets, at 11 September 2012—

- 4 were showing “performance improving” arrows;
- 4 were showing “performance maintaining” arrows; and
- 3 were showing “performance worsening” arrows.²⁷

30. The FSU briefing states that this is a significant change since June 2012. At 3 June—

- 5 were showing “performance improving” arrows; and
- 6 were showing “performance maintaining” arrows.

31. The Cabinet Secretary has recognised that—

“Performance against some of the economic indicators in the NPF is poorer than I would like it to be. Therefore, the Government highlights that our budget is strongly focused on taking forward economic interventions to support the Scottish economy.”²⁸

32. The Committee notes that the SG has emphasised that consistent reference to the NPF is important and asks, therefore, why there is so little reference to the National Outcomes in this year's portfolio sections compared to previous draft budgets.

33. The Committee has agreed to carry out a budget strategy phase following the UK Spending Review to scrutinise the progress which the SG is making in delivering its own targets through its spending priorities and to take a strategic overview of the public finances in advance of the next SG Spending Review. The SG has agreed to provide an assessment of its performance to support this scrutiny and the Committee reemphasises the need to provide some linkage between spending and outcomes in the documents which are provided. It would be helpful if some of this information could be provided prior to the introduction of the Budget Bill in January.

²⁶ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1823](#)

²⁷ The Government states that the “Purpose is supported by a set of ambitious targets which focus on the drivers of sustainable economic growth and ensure that growth is shared and sustainable. These targets form part of our outcome based National Performance Framework and set the direction and ambition of our Government Economic Strategy.”

²⁸ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1823.](#)

SUSTAINABLE ECONOMIC GROWTH

34. This section of the report focuses on whether the spending priorities within Draft Budget 2013-14 are consistent with the SG's emphasis on increasing sustainable economic growth. Specifically, the following key areas emerged in evidence—

- Capital Investment;
- “Picking Winners”;
- Access to Capital;
- Housing;
- Broadband;
- Regeneration;
- Skills and Employment;
- Non-Domestic Rates Income (NDRI);
- Public Sector Procurement.

Capital Investment

35. Draft Budget 2013-14 states that: “Capital investment continues to be a central element of our approach to supporting economic recovery.”²⁹ The SG states that despite a 33% reduction in the capital DEL budget between 2010-11 and 2014-15 it is maintaining capital investment “at over £3 billion annually through a range of innovative approaches” including the Non-Profit Distributing (NPD) pipeline of infrastructure projects and switching funding from resource to capital.

36. There is strong support within the business community for this emphasis on capital investment. For example, Stephen Boyle from the Royal Bank of Scotland suggests in relation to the priorities within the Draft Budget: “Where possible, I would allocate money from revenue to capital.” The SCC states that: “to deliver the best long-term benefits for the Scottish economy alongside short-term boost, investment in capital infrastructure is an extremely important route.”³⁰ In particular, it calls for investment in transport and digital technology. The Civil Engineering Contractors Association (CECA) Scotland states that: “The industry’s reaction to the budget is that, if it holds the line – in other words, if what is in the budget actually happens – civil engineering in Scotland will stabilise.”³¹

37. However, the SBF suggests that “progress is very slow in terms of projects coming out” including projects being supported by the Scottish Futures Trust

²⁹ [Scottish Government. Draft Budget 2013-14, P.5.](#)

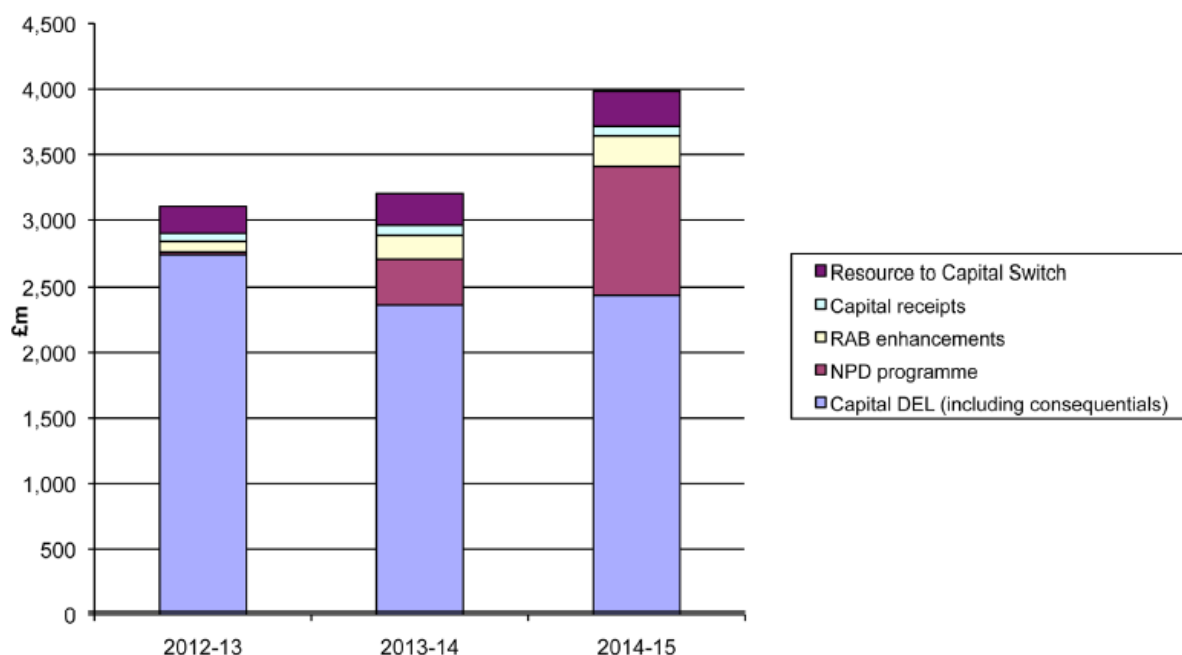
³⁰ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1617.](#)

³¹ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1624.](#)

(SFT).³² It goes on to say that: “To suggest that this budget, or any budget at this time, could be a budget for growth in the construction sector is out of touch with reality. Many construction businesses are in survival mode or, at best, recovery mode.”³³

38. Draft Budget 2013-14 provides a graphic of the various elements of the SG’s capital investment and this is reproduced below.

Figure 1



Source: Scottish Government

39. The Scottish Government has confirmed to the FSU that the numbers behind this figure are as follows—

Table 3

Estimated Total Capital Investment			
(£ million, cash)	2012-13	2013-14	2014-15
Capital DEL (including consequentialials) (1)	2736	2362	2437
NPD programme	20	338	973
RAB enhancements	82	184	232
Capital Receipts	60	77	73
Resource to Capital Switch	207	243	270
Total estimated capital investment	3105	3203	3985

(1) Differs marginally from figures in Table 1 of the Draft Budget 2013-14, due to inclusion of £30m from budget exchange in 2012-13 and exclusion of £15m of consequentialials in 2013-14 not yet formally received.

Source: Scottish Government

³² [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col. 1619.](#)

³³ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1630.](#)

40. The SG has advised FSU that for the NPD programme and the Regulated Asset Base (RAB), the figures are the expected upfront capital investment that will be undertaken by the companies that win the NPD contracts or Network Rail in the case of RAB.³⁴

Non-profit Distributing Model

41. The anticipated level and profile of NPD-financed investment presented in the 2013-14 Draft Budget differs from that presented in the previous year's Draft Budget. The estimates from the two documents are compared in Table 4 below. Over the three year period shown, planned NPD-financed capital investment is £482 million lower than had been anticipated at the time of the publication of the Spending Review.

Table 4: Estimated value of NPD-financed capital investment

(£ million, cash)	2012-13	2013-14	2014-15	Total
Draft budget 2012-13	353	686	774	1,813
Draft budget 2013-14	20	338	973	1,331
Difference	-333	-348	199	-482

Source: Scottish Government

42. The SBF stated that: "we call on all local authorities and public sector bodies to ensure that all the projects that are on the wish list or the infrastructure investment plan-whether they are NPD projects or other projects- are actually coming to the market. Currently, that is not the case: progress is very slow in terms of projects coming out."³⁵
43. In response the Cabinet Secretary stated that: "I readily acknowledge that the NPD programme requires a great deal more preparatory work because it requires the preparation of two substantive work streams" but that "The programme of activity is now moving apace. We will see a substantial impact from that in the course of the next few months."³⁶
- 44. The Committee asks the SG to provide further details on the reasons for re-forecasting the estimated NPD-financed capital investment and will invite the SFT to provide an update on the progress of NPD projects at a future meeting.**
- 45. The Committee is concerned that the revised estimates for NPD-financed capital investment were not explicitly provided in the draft budget and believes that all future draft budget reports should include updated estimates. The Committee would also find it helpful for the SG to provide details of the specific projects that underpin the NPD estimates in the draft budget.**

³⁴ NPD and RAB are both forms of revenue-financed investment. Under the RAB model, as an example, Network Rail pays for the up-front infrastructure costs by borrowing against its asset base and it repays the loans using payments from the Scottish Government over the lifetime of the asset (usually 30 years).

³⁵ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1619.](#)

³⁶ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col. 1817.](#)

Resource to Capital – overall

46. A key element of the SG's economic strategy is switching over £700 million from resource budgets to capital spending over the period 2012-13 to 2014-15. The SG provided details of this transfer during last year's budget process as follows—

Table 5

Resource to Capital – estimated switches			
	2012-13 £ million	2013-14 £ million	2014-15 £ million
Health	95	105	120
Enterprise Agencies	95.9	107	103
Scottish Futures Funds	15.5	30.5	40.7
Total Resource to Capital	206.4	242.5	270

Source: Scottish Government

47. In response to an oral question³⁷ in Parliament regarding which budget lines are affected by the 2013-14 switch the SG has subsequently provided the following information—

Table 6

Planned resource to capital switch in 2013-14	£ million	Reference in Draft Budget
Health	105	Specific budget line, table 3.03, p30
Enterprise Bodies	70	Within enterprise bodies line, table 4.06, p45, with explanatory text below table.
Scottish Futures Funds	23	Warm homes and Future Transport Funds, table 9.09, p125, Next Generation Digital Fund, table 7.06, p92 and Young Scots Fund, table 8.08, p102
Housing	43	Stock transfers under Supporting Sustainability budget line, table 9.10, p126, and Adaptations, under Supporting Transitions, in the same table
Other	2	EU Support and Related Services and Marine and Fisheries, table 7.01, p87
Total	243	

Source: Scottish Government

Resource to capital – health

48. As referenced above there is a budget line within the level 3 figures for the health resource budget for “provision for Transfer to Health Capital” of £95 million in 2012-13 and £105 million in 2013-14. The level 4 figures state that this

³⁷ [Scottish Parliament. Official Report, 31 October 2012, Col 12899.](#)

funding is the “availability of capital to support backlog maintenance, statutory compliance and equipment replacement.” The Cabinet Secretary stated in oral evidence to the Committee that this money is “fundamental and not just about bricks and mortar but about medical equipment.”³⁸

49. In relation to the proposed £95 million transfer in 2012-13, the SG has advised that the amount of the switch between revenue and capital has not yet been determined.

50. The Committee asks the SG to write to the health boards seeking clarification of their respective planned resource to capital switches for 2012-13 and 2013-14 including which resource budgets have been reduced to fund the switch and which capital projects have benefited and report back to the Committee. The Committee also asks whether there has been any assessment of the impact of these switches on sustainable economic growth.

Resource to capital – enterprise bodies

51. Draft Budget 2013-14 states that: “we expect the enterprise bodies to supplement their capital programme through switching somewhere between £40 million and £75 million from resource to capital budgets.”³⁹ The Enterprise Bodies have lodged additional information with SPICe including further details of the resource to capital switches and this is set out in Table 7.

Table 7

Highlands & Island Enterprise	Current Budget 2012/13 £ million	Draft Forecast 2013/14 £ million
Transfer from Resource DEL Budget to Capital	6.7	18.0
Scottish Enterprise	Published Plan 2012/13 £ million	Draft Forecast 2013/14 £ million
Transfer from Resource DEL Budget to Capital	24.2	50.7

Source: Enterprise Bodies

52. The EET Committee states in its report that: “The enterprise agencies have always had the flexibility and discretion to transfer funds between these budget headings. Despite the proposed transfers, capital spend by the agencies is forecast to fall in 2013-14 because the transfers do not fully compensate for the reduced capital funding from the Scottish Government.”⁴⁰ However, in evidence to the EET Committee the enterprise agencies provided assurances that “they were not reducing services in other areas to fund capital projects” which the

³⁸ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col. 1801.](#)

³⁹ [Scottish Government. Draft Budget 2012-13, P.1.](#)

⁴⁰ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.20.](#)

EET Committee recognises as providing “the enterprise agencies with flexibility.”⁴¹

53. The Cabinet Secretary stated that as a consequence of these switches—

“there will be a range of transfers to support activity. That will substantively be around renewable energy development in Scotland and will involve some of the projects that are envisaged under the national renewables infrastructure plan. There will also be particular physical works programmes in which Scottish Enterprise or Highland and Islands Enterprise will try to enhance the investment opportunities and possibilities that arise out of their capital contribution to particular land and building developments.”⁴²

54. The Cabinet Secretary agreed that he “would be happy to provide a broader list of projects that have been secured in that respect.”⁴³ In a letter to the Committee dated 29 November 2012⁴⁴ the Cabinet Secretary confirmed that: “The flexibility to switch from resource to capital will be used by SE and HIE to allow them to maintain momentum on a range of key capital expenditure projects and programmes.” The letter also includes a list of these projects and programmes. **Further to this letter, the Committee would welcome a breakdown of the funding allocated to each project and programme as a consequence of the switch.**

55. **The Committee notes that the Enterprise Bodies have indicated that they intend to switch £30.9 million in total from resource to capital in 2012-13 compared to an estimate of £95.9 million in last year’s budget and £68.7 million in 2013-14 compared to an estimate of £107 million in last year’s budget. The Committee invites the SG to explain the reasons for these changes.**

56. **The Committee would also welcome greater clarity in future draft budget documents in the presentation of proposals for resource to capital switches including reporting on the progress made in achieving these transfers.**

Resource to capital – Scottish Futures Funds

57. Table 6 above identifies the *Warm Homes* and *Future Transport Funds*, the *Next Generation Digital Fund* and the *Young Scots Fund* as the budget lines from which £23 million will be switched from resource to capital within the Scottish Future Fund. The level 4 figures indicate that £7.75 million has been allocated to both the *Warm Homes Fund* and the *Future Transport Funds* to support addressing fuel poverty in the most vulnerable communities. In relation to the *Next Generation Digital Fund* the level 4 figures indicate that £26 million has been allocated to accelerate the roll out of superfast broadband across Scotland. This is an increase from the £12 million allocated in the Spending

⁴¹ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.32.](#)

⁴² [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col. 1816.](#)

⁴³ Ibid.

⁴⁴ [Letter from Scottish Government Cabinet Secretary for Finance, Employment and Sustainable Growth to Convener of the Finance Committee, 29 November 2012.](#)

Review as a consequence of additional capital funds from Barnett consequentials. £12.5 million has been allocated to the *Young Scots Fund* to support the development of a National Youth Arts Centre, Historic Scotland's National Conservation Centre, the Opportunities for All programme and sport funding.

58. The Committee would welcome a breakdown of the resource/capital split for each of these funds.

Resource to capital – housing

59. The information provided at Table 5 by the SG during last year's budget process detailing the estimated resource to capital switches did not include any reference to housing. However, Table 6 above provided in respect of this year's draft budget indicates that £43 million will be switched from resource to capital under the grant commitments to stock transfer landlords element of the *supporting sustainability* budget line and the adaptations element of the *supporting transitions* budget line. The level 4 figures indicate that £49 million has been allocated in 2013-14 to grant commitments to support the achievement of SHQS and promises to tenants by Stock Transfer Registered Social Landlords (RSLs) while £6 million has been allocated to support older and disabled people requiring adaptations. The equivalent figures for 2012-13 were £53.2 million and £6 million.

60. The Committee would again welcome a breakdown of the resource/capital split for each of the above budget lines within the housing budget.

61. More generally, the Committee expressed concern in its report on last year's budget regarding the lack of detailed information on the SG's estimated resource to capital switches and believes that it would have been helpful if the changes in the planned resource to capital switch for 2013-14 were made clear in this year's draft budget.

62. The Committee invites the SG to explain these changes and to provide updated figures for the overall resource to capital switch for 2012-13 similar to those now provided for 2013-14.

Maintenance Expenditure

63. The Auditor General for Scotland (AGS) informed the Committee during last year's budget process that "the maintenance problem is very significant" and the Committee asked the SG to provide details of the priority given to maintenance expenditure within the Spending Review. The SG responded that—

"Maintenance spend will be held broadly flat in cash terms, ensuring that essential maintenance can continue. We are also working with the Scottish Futures Trust to take forward improvements in the way we manage assets across the public sector to reduce maintenance requirements over the next

few years, through greater collaborative use of assets and disposal of surplus assets.”⁴⁵

64. The Justice Committee has expressed concern: “that the backlog of maintenance on court buildings, currently estimated at £57.1 million, is a ‘ticking time bomb’ for the Scottish Court Service.”⁴⁶ The Health and Sport Committee heard from the SG that “at least £400m”⁴⁷ is required to resolve capital maintenance within the health budget.

65. The Infrastructure and Capital Investment (ICI) Committee “is concerned that local road maintenance budgets are still being cut. Evidence from several witnesses that cutting local maintenance budgets impacts disproportionately on pedestrians and vulnerable groups in particular.”⁴⁸ The ICI Committee notes that the SG is due to publish the final outcomes of its Road Maintenance Review and “hopes it will provide firm proposals for dealing with the widely acknowledged backlog of road repairs across Scotland.”⁴⁹

66. The Committee will seek an update from the SFT on its work in this area.

67. The Committee seeks clarification as to whether the £400 million which the SG identifies as being the minimum amount required to resolve capital maintenance within the health budget takes account of the £320 million switch from resource to capital within the health budget over the period of the spending review.

“Picking Winners”

68. Professor Kay states in written evidence to the Committee that: “the appropriate industrial strategy for Scotland is that it should be based on the principle that small countries succeed in the world economy by exporting narrow specialisations on a global scale.”⁵⁰ He suggests that this means “picking winners” by identifying and promoting sectors in which Scotland has a genuine competitive advantage and that “the emphasis should be on sectors that are winners, not on ones that we would like to be winners.”

69. In oral evidence to the Committee, Professor Kay followed up on this point by suggesting that the Committee should challenge the SG on what it is doing to develop skills and capabilities in those industries where Scotland has a genuine competitive advantage.⁵¹

⁴⁵ [Scottish Government. Response to Finance Committee's Report on 2012-13 Draft Budget.](#)

⁴⁶ [Scottish Parliament Justice Committee. Report on the Scottish Government Draft Budget 2013-14, P.20.](#)

⁴⁷ [Scottish Parliament Health and Sport Committee. Report on the Scottish Government Draft Budget 2013-14, P.6.](#)

⁴⁸ [Scottish Parliament Infrastructure and Capital Investment Committee. Report on the Scottish Government Draft Budget 2013-14, P.41.](#)

⁴⁹ [Scottish Parliament Infrastructure and Capital Investment Committee. Report on the Scottish Government Draft Budget 2013-14, P.42.](#)

⁵⁰ [Professor John Kay. Briefing note to the Finance Committee.](#)

⁵¹ [Scottish Parliament Finance Committee. Official Report, 24 October 2012, Col 1702.](#)

70. Specifically in relation to the whisky industry he stated that the contribution that whisky makes to the Scottish economy is significantly overestimated and is quite disappointing. He argues that: "The growth of the Scottish whisky industry is not that impressive, given the extent of global growth in spirits consumption. There are a lot of questions that we should be asking about the whisky industry and its contribution to Scotland."⁵² More generally in relation to the food and drink industry Professor Kay states that he is not sure that Scotland's potential as having a premium brand in food and drink is being realised.
71. Scottish Enterprise stated previously in evidence to the Committee that there is a need "to focus deeply on a relatively small number of companies" and that "at any one time, about 2,000 to 3,000 of those businesses have the absolute ability to be international businesses or to grow."⁵³ It stated that most resources go into the energy, tourism, financial services, life sciences, food and drink sectors and the creative industries.
72. However, Professor MacRae from Lloyds Banking Group suggests that "Highlands and Islands Enterprise and Scottish Enterprise should be targeting support at high-growth firms much more than they are at the moment" and that high-growth firms occur in all sectors and not only in the "so-called key sectors."⁵⁴ This point was also made by Professor Mason from the University of Glasgow who argues: "The reality is that high-growth firms are found in all sectors, and are of all ages, all sizes are found in all locations. It is simply not possible to predict where they will emerge."⁵⁵
73. Professor Mason also suggests that: "Policy makers appear to have a fixation on technology sectors as a source of high-growth companies, but Scotland has the wrong kind of technology base to be a source of a significant number of high growth firms."⁵⁶ In contrast to Professor Kay he argues that: "We cannot simply pick winners. We cannot predict in advance where high-growth firms will come from either at the firm level or the sectoral level."⁵⁷
74. In response to Professor Kay's emphasis on picking winners the Cabinet Secretary stated that: "I accept a large part of Professor Kay's analysis – I accept that we should be focusing our efforts and intensifying what we can do in key discrete areas – but I disagree with him in that we must also look at some prospecting activity."⁵⁸
- 75. The Committee invites the SG to respond to the views of Professor Kay regarding its role in the development of skills and capabilities in areas where Scotland has a genuine competitive advantage and how best to realise Scotland's potential as having a premium brand in food and drink.**

⁵² [Scottish Parliament Finance Committee. Official Report, 24 October 2012, Col. 1713.](#)

⁵³ [Scottish Parliament Finance Committee. Official Report, 9 May 2012, Col. 1084.](#)

⁵⁴ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col. 1661.](#)

⁵⁵ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col. 1659.](#)

⁵⁶ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col. 1660.](#)

⁵⁷ [Scottish Parliament Finance Committee, Official Report, 3 October 2012, Cols 1660-61.](#)

⁵⁸ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1804.](#)

Access to Capital

76. The Committee also heard from a number of witnesses on the issue of access to capital. John Hughes from the Edinburgh Chamber of Commerce stated that: “Where I find frustration is in access to early-stage capital” and that “access to the Scottish Enterprise seed fund is a particular bone of contention.”⁵⁹ He argues that: “It is criminal that, when there is a necessity for access to early stage funding, the seed fund does not work and is not getting the deals. Potentially, it will lose European funding if it is not active.”⁶⁰ He suggests that while Scottish Enterprise’s co-investment fund “works excellently” the seed fund “languishes.”

77. Ian Ritchie from the RSE states that in relation to financing innovation “seed finance – angel funding – is extremely strong in Scotland.” He suggests that there are two reasons for this. The Enterprise Investment Scheme (EIS) and the seed enterprise investment scheme at a UK level and Scottish Enterprise’s co-investment fund. However, he suggests that while “angel funding” is very strong the “next level of risk capital is almost impossible to achieve” and that “without risk capital, we will not have companies and we will not have an economic future.”⁶¹ He recommends that: “It is now time to reinvent Scottish Development Finance through a private sector partnership deal with Scottish Enterprise. It would work like venture capitalists in the same way as the old SDF.”⁶²

78. Professor Mason made a similar point: “We certainly have an active business angel base that can put in £1 million to £2 million, but we are lacking in the £5 million to £10 million venture capital money... Maybe we have to think about whether we can import that kind of venture capital from elsewhere.”⁶³

79. The Committee invites the SG to respond to the views of witnesses in relation to access to capital and, in particular, how to optimise the Scottish Enterprise seed fund.

Housing

80. While the SBF welcomed the additional £40 million for housing announced by the Cabinet Secretary in his budget statement it warned that: “we are at record lows on completions and outcomes. We must address that” and “we must find a way of increasing the volume of house building, because if we are not already at crisis point, we will certainly get there in the next few years.”⁶⁴

81. The Scottish Federation of Housing Associations (SFHA) stated that housing should be the cornerstone of preventative spending especially in relation to the health budget: “If people have a home to which they can return, they do not stay in hospital as long. In fact, they do not need to be kept in hospital because the

⁵⁹ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col 1663.](#)

⁶⁰ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col 1663.](#)

⁶¹ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col 1672.](#)

⁶² [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col 1679.](#)

⁶³ [Scottish Parliament Finance Committee, Official Report, 3 October 2012, Cols 1668-69.](#)

⁶⁴ [Scottish Parliament Finance Committee, Official Report, 26 September 2012, Col 1637.](#)

adaptations budget should allow for adaptations to be made to their home.”⁶⁵ Age Scotland suggest that the budget line for supporting transitions has reduced from £32.2 million to £22.1 million despite an increase in demand for adaptations which are expected to rise from 66,000 in 2008 to 106,000 in 2031.⁶⁶ However, as noted above the allocation for adaptations is £6 million for both 2012-13 and 2013-14 some of which is being moved from resource to capital.

82. The SPF also raised concerns in relation to the budget for housing—

“Scottish Ministers will be aware of frankly shocking statistics collated by *Homes for Scotland* that demonstrate we are now seeing fewer houses being built than at any time since 1926. This is a reflection of the extent of the impact of the current recession on the house-building industry. And clearly the continued depression in the sector will store social problems for the future (through lack of delivery of affordable housing) as well as continue to weigh down the present economy.”⁶⁷

83. The ICI Committee mainly focused its budget scrutiny this year on the SG’s spending plans for affordable housing. Its submission states—

“The Committee notes that witnesses argued for the restoration of affordable housing spending to the average cuts faced on capital spending – this would mean an overall cut of 33% rather than 45% over the spending review period. The Committee, recognising the progress made with leveraging-in extra private resources, agrees with this proposal and calls on the Scottish Government to consider the case for prioritising the closing of that gap during the current spending review period.”⁶⁸

84. The ICI Committee also raised concerns in relation to grant levels for new housing developments—

“The Committee acknowledges the concerns expressed about the sustainability of the financial capacity of parts of the housing association sector to attain its implied target of new social supply over the life of the Parliament. It notes in particular the view of housing associations who gave evidence that grant levels of £40,000 are not sustainable. It calls on the Scottish Government to review that grant level and to set out explicitly what alternatives there are to meet the social housing share of the target, should housing association development fall below the planned level.”

85. The Committee notes the recommendation of the ICI Committee in relation to the budget for affordable housing. The Committee believes that consideration is given to additional funding for affordable housing should additional funding become available.

⁶⁵ [Scottish Parliament Finance Committee, Official Report, 31 October 2012, Col 1753.](#)

⁶⁶ [Scottish Parliament Finance Committee, Official Report, 31 October 2012, Col. 1757.](#)

⁶⁷ [Scottish Property Federation. Written submission to the Finance Committee.](#)

⁶⁸ [Scottish Parliament Infrastructure and Capital Investment Committee. Report on the Scottish Government Draft Budget 2013-14, P.11.](#)

Broadband

86. Draft Budget 2013-14 states that—

“Improving our digital connectivity is one of the key aims of our digital strategy. We want to ensure that all of Scotland’s citizens are equipped to take advantage of the digital revolution. Improving connectivity will support future innovation in the digital economy and ensure Scotland’s business base can remain competitive in the global digital environment.”⁶⁹

87. The SG published Scotland’s Digital Future – Infrastructure Action Plan in January 2012 which includes a commitment to “deliver digital connectivity across the whole of Scotland by 2020.”⁷⁰

88. The SCC point out that there is “huge frustration at the lack of progress on rolling out broadband connections in the Highlands and Islands. There is a really ambitious programme for that, but it does not look as though there will be any movement on it until at least next year. That is worrying.”⁷¹

89. The RACCE Committee believes that: “rolling out digital connectivity to all rural communities and businesses is crucial to achieving sustainable economic growth ” and recommends that the SG “should press Ofcom to give priority in its planned roll out of broadband in rural areas to the most remote communities where connectivity is poorest.”⁷²

90. The EET Committee: “welcomes the Scottish Government’s ambitious target of providing country-wide broadband by 2020.”⁷³

91. However, Professor Kay invited the Committee to consider whether public support for expansion of broadband access is an effective use of public money. He argues that—

“The cost of providing widespread very fast broadband is high, but the business benefits are not clear or substantial. There are benefits to a small number of firms that use large quantities of data, but those firms are mainly in financial services and are concentrated in areas where it is relatively cheap to provide such broadband. Bluntly, much of the benefit of very fast broadband is about the rapid download of movies.”⁷⁴

92. This issue was discussed quite widely during the Committee’s workshop sessions in Hawick. During the feedback from one of the workshops it was noted that one of the contributors said that: “she does not have access to the internet at home because she cannot even get dial-up in the area in which she

⁶⁹ [Scottish Government. *Draft Budget 2013-14*, P.112](#)

⁷⁰ [Scottish Government. *Draft Budget 2013-14*, P.13](#)

⁷¹ [Scottish Parliament Finance Committee, *Official Report*, 26 September 2012, Col 1624-25.](#)

⁷² [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.3.](#)

⁷³ [Scottish Parliament Economy, Energy and Tourism Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.3.](#)

⁷⁴ [Scottish Parliament Finance Committee. *Official Report*, 24 October 2012, Col. 1704.](#)

lives. If a business or a person in that area cannot even get dial-up, they are at a serious competitive disadvantage.”⁷⁵

- 93. The Committee asks whether the SG has carried out any cost-benefit analysis of its digital infrastructure action plan and whether consideration has been given to prioritising internet access across the whole of Scotland as opposed to prioritising high speed broadband.**

Regeneration

94. The Local Government and Regeneration (LGR) Committee focused on regeneration in its scrutiny of this year’s draft budget. £175 million has been made available by the SG to support regeneration over the period of the Spending Review. The LGR Committee concluded that it—

“believes there is good work ongoing at different levels in terms of regeneration but, in the absence of clearly identifiable, meaningful and measurable outcomes, is unable to assess the effect of regeneration as regards sustainable economic growth or for any other measure.”⁷⁶

- 95. The Committee notes that the LGR Committee has indicated that it intends to conduct a wider inquiry into regeneration in 2013 and in the meantime would welcome a response to the points above.**

Skills and employment

96. The Committee has recently completed an inquiry on employability and the report is available on the Committee’s web pages on the Parliament’s website.⁷⁷ A number of issues which arose during that inquiry have also arisen during this year’s budget scrutiny. For example, the SCC indicated that—

“We believe that more needs to be done to harness accurate labour market intelligence and combine this with careers guidance and employability training in schools in order to better equip young people with the information and skills then need to make the successful transition to employment and the workplace.”⁷⁸

97. For its part, the SBF indicated that while it applauded the efforts of the SG to increase the number of Modern Apprenticeships made available throughout the economy, it noted that “the quality of apprenticeships across different industries is not directly comparable and that construction represents one of the highest quality apprenticeship frameworks currently available”. It suggested that a “more proactive strategy is required to equip the industry with the future skills it will need.”⁷⁹

⁷⁵ [Scottish Parliament Finance Committee. *Official Report*, 5 November 2012, Col 1796.](#)

⁷⁶ [Scottish Parliament Local Government and Regeneration Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.19.](#)

⁷⁷ [Scottish Parliament Finance Committee. *8th Report 2012 \(Session 4\) Improving employability*.](#)

⁷⁸ [Scottish Chambers of Commerce. *Written submission to the Finance Committee*.](#)

⁷⁹ [Scottish Building Federation. *Written submission to the Finance Committee*.](#)

98. The SCC commented on the co-ordination of approach from the public sector in areas such as training and education stating that—

“there is still a diversity of public bodies dealing with key areas such as education and training, including Skills Development Scotland, Scottish Enterprise and Highlands and Islands Enterprise, the Scottish Funding Council, the Scottish Qualifications Authority and, at a UK level, the Sector Skills Councils.”⁸⁰

99. The Federation of Small Businesses (FSB) suggested in its submission that there needed to be a different approach to current employment strategies stating that—

“Job creation incentives and youth employment strategies generally focus on providing training places for individuals and finding employers to pick up those places. However, the experience of many small businesses suggests that this approach is unsuitable. Consequently, we are not capitalising on those businesses’ potential to expand. This is often due to the rigid eligibility criteria.”⁸¹

100. The FSB suggested there needed to be greater emphasis on “employment measures as part of a business growth approach.” Specifically, it suggested that—

“more flexible funding solutions will help support jobs growth in small businesses. Our initial evidence suggests that locally-developed solutions, which take account of business priorities/labour demands and direct engagement with local businesses, may be more successful at creating sustainable employment in local small businesses than national schemes.”⁸²

101. The FSB stated that: “There is a disconnect between some employability initiatives and the sort of jobs that are available...When we design initiatives to make it easier to employ people, we must take into account the job market and what most jobs are about.”⁸³ It also argues that while the various government employment initiatives have been welcome “they have not quite addressed the issue on the scale that we need to address it on.”⁸⁴

102. Professor MacRae of the Lloyds Banking Group stated that: “I do not believe that the explanation for our low economic performance is a low level of human skills or human capital” and that “the problem lies not with the level of skills but with the utilisation of those skills in our businesses.”⁸⁵ Stephen Boyle from the Royal Bank of Scotland stated that: “The human capital challenge emerges not

⁸⁰ [Scottish Chambers of Commerce. Written submission to the Finance Committee.](#)

⁸¹ [Federation of Small Businesses. Written submission to the Finance Committee.](#)

⁸² Ibid.

⁸³ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Cols 1633-34.](#)

⁸⁴ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1620.](#)

⁸⁵ [Scottish Parliament Finance Committee. Official Report, 3 October 2012, Col 1656.](#)

with highly skilled people but with those who do jobs requiring lower levels of skills and qualifications.”⁸⁶

103. The EET Committee is concerned that: “despite current high levels of unemployment, there still appears to be skills shortages in certain sectors. It believes that this reflects a disconnect in supply and demand in the employment market.”⁸⁷ It welcomes the Cabinet Secretary’s commitment to work with industry leadership groups in addressing this problem.

104. The Education and Culture Committee noted evidence from “academics around—

- Scotland having a high number of jobs requiring no education beyond compulsory school education;
- a lot of intermediate-level jobs being filled by graduates, which limits the scope for people with FE qualifications to deploy their skills.”⁸⁸

105. The Equal Opportunities Committee (EOC) looked at Modern Apprenticeships (MAs) and: “seek clarity as to what reporting mechanisms funding agencies are required to adhere to with respect to the promotion of, the recruitment and performance of Modern Apprenticeships.” It suggests that providing evidence of the gender breakdown of MAs “would be consistent with the framework required for equal pay reporting in the public sector and commensurate with the commitment to progress equal pay.”⁸⁹

106. The EOC also stated that: “we are concerned about the impact of certain spending decisions, in particular, access and retention issues for women in employment and persistent patterns of occupational segregation in the labour market.”⁹⁰

107. The Cabinet Secretary stated in response to the question of skills shortages that: “if we are spending a substantial amount of public money, how on earth can we have employers saying to us that they cannot get the skills that they require.”⁹¹ He went on to set out a number of initiatives which the SG is taking to improve the dialogue with businesses and industry and stated that: “That dialogue is now taking place much more actively than has been the case and in a much more focused way.”⁹²

108. The Committee also heard evidence on the impact of higher and further education on economic growth. Professor Ian Diamond from the University of Aberdeen stated that: “we need to think about the interaction between FE and

⁸⁶ [Scottish Parliament Finance Committee. Official Report, 3 October, Col1656.](#)

⁸⁷ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.18.](#)

⁸⁸ [Scottish Parliament Education and Culture Committee. Report on the Scottish Government Draft Budget 2013-14, P.23.](#)

⁸⁹ [Scottish Parliament Equal Opportunities Committee. Report on the Scottish Government Draft Budget 2013-14, P.12.](#)

⁹⁰ Ibid.

⁹¹ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1804.](#)

⁹² [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1805.](#)

business”⁹³ and that “Scotland has an extremely high-class higher education sector. It is fully committed to providing the skills required to for Scotland to become the knowledge economy that it needs to be if it is to be as successful in the next few years as we all wish it to be.”⁹⁴

109. Professor Jeremy Peat from the DHI stated that: “We fail to make the best use of people with FE skills within businesses, and we fail to develop people with the right skills and to impart them. FE can encourage entrepreneurial activity for small businesses and microbusiness and it can have close links at the low and medium-skill level.”⁹⁵

110. NUS Scotland stated that: “although colleges deliver higher education courses, they receive a lower level of funding than universities to do so, and we think that that has an impact not only on local access to education but on the ability of those who are furthest from education to get into higher education courses.”⁹⁶

111. The Committee’s report on employability states that a “key message from the private sector is the need to involve business representatives and individual businesses of all sizes in the design of employability and labour market initiatives and programmes both at a national and a local level.” The Committee looks forward to the response from the SG to the recommendations in its report on employability.⁹⁷

Non-Domestic Rates Income (NDRI)

112. The FSU budget briefing states that NDRI is forecast to rise by 17.7% in cash terms and 12.1% in real terms between 2012-13 and 2014-15.⁹⁸ The Budget Adviser states that: “With a yield of more than £2.2bn in 2011-12, NDRI has grown steadily as a source of income. Given that NDRI is effectively a tax on non-exempt businesses, it is not clear that expecting it to grow further is consistent with the objective of maximising economic growth.”⁹⁹

113. The Cabinet Secretary stated in response to questioning on this issue that a large proportion of the rise in the tax take “is a product of the application of the inflation multiplier. If we look at the period from 2007-08 to the end of this spending review period, we see that the level of increase in projected business rate take in Scotland is virtually identical to the increase projected in England, except that our numbers are slightly higher because of the public health supplement that I applied.”¹⁰⁰

114. The SCC points out that: “there will be an increase of about £500 million in the business rates take between 2011 and 2015” and that its members “are

⁹³ [Scottish Parliament Finance Committee. *Official Report*, 3 October, Col 1680.](#)

⁹⁴ [Scottish Parliament Finance Committee. *Official Report*, 3 October, Col 1650.](#)

⁹⁵ [Scottish Parliament Finance Committee. *Official Report*, 3 October, Col 1676.](#)

⁹⁶ [Scottish Parliament Finance Committee. *Official Report*, 31 October, Col 1760.](#)

⁹⁷ [Scottish Parliament Finance Committee. *8th Report 2012 \(Session 4\) Improving employability*.](#)

⁹⁸ [Scottish Parliament Financial Scrutiny Unit. *Briefing on 2013-14 Draft Budget*.](#)

⁹⁹ [Professor David Bell. *Report on Draft Budget 2012-13*.](#)

¹⁰⁰ [Scottish Parliament Finance Committee. *Official Report*, 5 November 2012, Col. 1818.](#)

acutely aware that they are essentially paying a larger share towards the overall spend in the Scottish budget.”¹⁰¹ CBI Scotland welcomes in written evidence the Government’s commitment to maintaining the poundage rate parity with England.¹⁰²

115. The Committee’s report on Draft Budget 2012-13 included a reference to concerns from the EET Committee that the projected income rise from NDR may not be realised depending on the overall economic situation. The SG responded that: “the link between buoyancy in NDRI and economic growth is not as sensitive in the short run to changes in the macro-economy than other taxes.”¹⁰³ The SG also confirmed that if any “adjustments are necessary this will be brought to the attention of the Parliament and its Committees for scrutiny through the Budget process.”

116. In response to questioning from the Committee the Cabinet Secretary confirmed that the projections for NDRI within the Spending Review are unchanged: “It is not a precise science, but I can certainly confirm to the Committee that I am confident in the assumptions that I have made.”¹⁰⁴ He also confirmed that: “the mid-year estimate for 2012-13 that I have at my disposal is £2.362 billion.”¹⁰⁵ The Committee also asked whether the Cabinet Secretary would share the underlying data and he responded that: “I want to be as helpful to the Committee as I can be” and “If there is more that I can do by confirming the mid-year estimate, I will certainly be happy to do so in future.”¹⁰⁶

117. However, the EET Committee states that it is “concerned about the potential impact of a shortfall in non-domestic rate income” on the SG’s budget and also recommends that the SG “keeps under review” the impact of NDRI increases on businesses.¹⁰⁷

118. The Committee asks that if there is any shortfall in NDRI that the Cabinet Secretary writes to the Convener as soon as is practical after this becomes apparent. Further to last year’s draft budget report the Committee again asks that it receives more regular reports on NDRI collection performance.

Public Sector Procurement

119. The SBF stated that: “There is an issue with the procurement process. In a recent survey of all our members, a significant majority of companies with an annual turnover of under £2 million said that they had basically opted out of public sector procurement.”¹⁰⁸ CECA Scotland stated that: “So many things are tied up with tidying up procurement and, indeed, various local benefits can be

¹⁰¹ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Cols 1634.](#)

¹⁰² [CBI Scotland. Written submission to the Finance Committee.](#)

¹⁰³ [Scottish Government. Response to the Finance Committee’s Report on 2012-13 Draft Budget.](#)

¹⁰⁴ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col. 1818.](#)

¹⁰⁵ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1819.](#)

¹⁰⁶ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1819.](#)

¹⁰⁷ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.28.](#)

¹⁰⁸ [Scottish Parliament Finance Committee. Official Report, 26 September 2012, Col 1621.](#)

gained through using local providers instead of going for the cheapest price...The procurement reform bill should cover those matters and we cannot wait for it.”¹⁰⁹ SCVO stated in its written submission that public procurement “could be reformed to help stimulate and benefit local economies, third sector organisations and a range of social/environmental outcomes.”¹¹⁰ The SCC stated in its written submission that: “Crucially important to business in terms of public sector support are Scotland’s public procurement processes” and that while some progress has been made “we remain some distance away from maximizing the benefits to Scotland from our procurement processes.”¹¹¹

120. The SBF commented on the need for reform of the public procurement system. It therefore welcomed the recently announced consultation on the potential introduction of a Procurement Reform Bill, but also highlighted how urgently problems with the current system needed to be addressed. It stated that—

“A recent survey of SBF members found that, on average, Scottish construction companies have to submit 36 pre-qualification questionnaires for every successfully procured contract and that more than three out of every four PQQs completed fails to secure a place on the tender shortlist. Meanwhile, an average of seven out of eight submissions from the tender shortlist is unsuccessful in securing the work being tendered for.”¹¹²

121. The EET Committee recommends that the SG considers—

“the extent to which it can promote the use of community benefit clauses and other social, economic and environmental objectives. This includes ensuring that small and medium sized enterprises do not face barriers that deter from bidding for these contracts, while still respecting the legal framework provided by the European Union public procurement directives. We also ask that the Scottish Government consider how it can effectively influence revision of EU public procurement directives to promote the inclusion of community benefit clauses as evaluation criteria in the procurement process.”¹¹³

122. It further recommended—

“Given the substantial amount spent on public sector procurement it is imperative that the system is efficient, effective and provides value for money. The Committee welcomes the opportunity provided by the proposed Procurement Reform Bill and calls on the Scottish Government to consider the extent to which it can promote the use of community benefit clauses and other social, economic and environmental objectives. This includes ensuring that small and medium sized enterprises do not face barriers that deter them from bidding for those contracts, while still respecting the legal framework

¹⁰⁹ [Scottish Parliament Finance Committee. *Official Report*, 26 September 2012, Col 1631.](#)

¹¹⁰ [Scottish Council for Voluntary Organisations. *Written submission to the Finance Committee*.](#)

¹¹¹ [Scottish Chambers of Commerce. *Written submission to the Finance Committee*.](#)

¹¹² [Scottish Building Federation. *Written submission to the Finance Committee*.](#)

¹¹³ [Scottish Parliament Economy, Energy and Tourism Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.4.](#)

provided by the European Union public procurement directives. We also ask that the Scottish Government consider how it can effectively influence revision of EU public procurement directives to more effectively promote the inclusion of community benefit clauses as evaluation criteria in the procurement process.”

123. And—

“The Committee notes the number of SMEs winning public sector contracts. We recommend that the Scottish Government collects data on the value of the public sector contracts that SMEs are undertaking.”

124. In relation to public procurement practices at an EU level the Committee heard evidence from Jim and Margaret Cuthbert on 7 March 2012 in which they stated—

“In our report, we look at EU evidence, and one of the studies that was carried out by the EU was on practices in all the different EU countries to encourage small to medium-sized enterprises to participate. Let us take Germany as an example. The German economy cannot be regarded as being an inefficient one, but Germany regards the small to medium-sized enterprise sector as the core of its economic strategy and makes it a legal requirement that public sector contracts be broken down into lots precisely so that small to medium-sized enterprises can bid for them. Therefore, there is evidence from the EU that it is possible to be much more proactive in insisting that contracts be broken down and that, furthermore, that policy works in the context of a successful economy, such as that of Germany.”

125. The Committee asks the SG what consideration it has given to the impact of EU public procurement directives on SMEs in consulting on the proposed Procurement Reform Bill and asks that the SG considers and responds to the recommendations of the EET Committee at paragraphs 121-123 above.

PROGRESS ON RENEWING PUBLIC SERVICES

Preventative Spending change funds

126. The Committee stated in its report on last year’s budget that it welcomed the Scottish Government’s continued emphasis on renewing public services. This section of the report will focus on scrutinising the SG’s progress in this area.

127. In its report on last year’s draft budget the Committee agreed with the Christie Commission that it is essential that the change funds are monitored and indicated that it would monitor the progress of each of the funds. In response to last year’s draft budget report the SG stated that it had agreed previously with the Committee to: “provide, in future draft budgets, assessment of the progress being made towards a more preventative approach.” The SG also stated that: “work is underway to develop monitoring and evaluation frameworks for the Change Fund for older people’s services and Early Years and Early Intervention

Change Fund.”¹¹⁴ The SG states that Draft Budget 2013-14 “provides an update on progress”¹¹⁵ and reinforces the commitment to preventative spending. It also states that: “Monitoring processes are being developed and put in place for each of the three change funds, including an assessment of their impact on improving outcomes and reducing the demand for acute services over time.”¹¹⁶

128. While there is some narrative within the Draft Budget on how progress will be monitored there is little detailed assessment of the progress being made in implementing each of the change funds. In particular, no detail is provided regarding how much money has so far been allocated to the change funds by the SG or NHS Boards and local authorities and what preventative services the change funds have supported. The RSE stated in its written evidence to the Committee that: “it is difficult to identify the level of real funds dedicated to this purpose or to analyse progress over the relatively short time period that preventative spending has been on the agenda.”¹¹⁷ In a similar vein SCVO suggested in written evidence that: “Given the lack of detail in the Change Plans, it is difficult to fully assess the reality of change on the ground.” It argues that: “Some fundamental questions need to be asked in relation to the change funds and prevention. Change what? By how much? What does success look like? We need to develop concrete plans to ensure the sustainability of public services.”¹¹⁸

129. Draft Budget 2013-14 states that: “The three change funds illustrate the progress towards prevention, driving change in mainstream service delivery.”¹¹⁹ The Cabinet Secretary confirmed in his statement on the draft budget 2013-14 that: “In partnership with local government, we have made more than £500 million available to three change funds to support early years, adult social care and to tackle reoffending.”¹²⁰ The Cabinet Secretary also announced that: “I can confirm that Single Outcome Agreements will incorporate a long term prevention plan that makes a commitment to increase the resource invested and reinvested over time in preventative interventions.”¹²¹

130. In its response to the Committee’s report on draft budget 2012-13 the SG stated that local authorities—

“are encouraged to contribute funds to support the greater alignment of budgets on a preventative basis. The level of funding deployed on this basis and the activities that it will support should be determined locally in line with a framework established at a national level...”¹²²

131. In the same response the SG also stated that—

¹¹⁴ [Scottish Government. Response to the Finance Committee's Report on 2012-13 Draft Budget.](#)

¹¹⁵ [Scottish Government. Draft Budget 2012-13, P.15.](#)

¹¹⁶ [Scottish Government. Draft Budget 2012-13, P.16.](#)

¹¹⁷ [Royal Society of Edinburgh. Written submission to the Finance Committee.](#)

¹¹⁸ [Scottish Council for Voluntary Organisations. Written submission to the Finance Committee.](#)

¹¹⁹ [Scottish Government. Draft Budget 2013-14, P.15.](#)

¹²⁰ [Scottish Parliament. Official Report, 20 September 2012, Col 11738.](#)

¹²¹ [Scottish Parliament. Official Report, 20 September 2012, Col 11739.](#)

¹²² [Scottish Government. Response to the Finance Committee's Report on 2012-13 Draft Budget.](#)

“Over £500 million is being committed to the change funds over the three-year spending review period. Our pledge to extend the funds over this period is important, as it provides a secure financial environment in which delivery partners and stakeholders can plan...”¹²³

132. It is unclear how the figure of £500 million has been arrived at given that the contribution of local authorities appears to have been decided at a local level. For example, East Ayrshire Council stated in its submission that while the Change Funds are welcome: “much of the funding came from refocusing existing activities to ensure that preventative action is prioritised.”¹²⁴ North Ayrshire Council stated in its submission that £920,000 of new funding has been committed to a preventative spending approach in the current financial year but that “this will be difficult to maintain as our funding gap widens.”¹²⁵

133. The Committee also notes that the local government portfolio within Draft Budget 2013-14 includes a commitment to “continue to invest up to £198 million”¹²⁶ in the change funds by national and local government and their community planning partners. SG officials have confirmed that this figure relates to 2013-14.

134. The Committee is concerned about the timescales involved in developing the monitoring and evaluation processes for each of the Change Funds and invites the SG to confirm when this work will be completed.

135. The Committee is also concerned about the lack of information regarding the amount of funding which has been allocated to the Change Funds and recommends that the monitoring and evaluation frameworks include spending details.

136. The Committee asks the SG to write to all 32 local authorities and the health boards seeking an update of the funding which has been allocated and is likely to be allocated by each of them to each of the Change Funds since the publication of the Spending Review 2011, including how much is additional funding and how much is refocusing existing activities towards a preventative approach and to report back to the Committee.

137. Given the commitment to allocate £500 million to the Change Funds and that the level of any local authority contribution is determined at a local level the Committee invites the SG to explain how it will approach any shortfall in the £500 million arising from a lack of funding at local authority level and how this is monitored.

Early Years and Early Intervention Change Fund

138. The SG stated in its response to the Committee’s report on Draft Budget 2012-13 that in relation to the Early Years Change Fund: “Resource in total is

¹²³ Ibid

¹²⁴ [East Ayrshire Council. Written submission to the Finance Committee.](#)

¹²⁵ [North Ayrshire Council. Written submission to the Finance Committee.](#)

¹²⁶ [Scottish Government Draft Budget 2013-14, P. 145.](#)

estimated to be a minimum of £270m over the spending review year period.”¹²⁷
The resourcing of the fund is to be provided by NHS boards and local authorities with the SG also providing £50 million.

139. Draft Budget 2012-13 stated that the Health, Wellbeing and Cities portfolio would be contributing “£20m/£45m/£50m over the Spending Review period” to the Early Years Change Fund.¹²⁸ Draft Budget 2013-14 states that the Health and Wellbeing portfolio will be “investing £39m/£42m over 2013-14 and 2014-15 on the Early Years Change Fund”.¹²⁹ There is no explanation for the apparent reduction in the allocation to the change fund or provision of any detail as to whether the £20 million has been allocated in the current financial year.
140. In its report on Draft Budget 2012-13 the Committee sought clarification on the level of local government funding which the SG anticipates will be contributed to the Early Years Change Fund and whether this will be additional to the funding of existing programmes but no response was received on this point.
141. North Ayrshire Council stated in its submission that: “We welcomed the announcement of the Children’s Change Fund but so far it has not been as successful as the Older People’s one in terms of shifting the balance of funding and responses. Allocation of new money at partnership level...would help drive forward this agenda.”¹³⁰
- 142. The Committee invites the SG to provide updated figures for the Early Years and Early Intervention Change Fund for each of the three years of the Spending Review period including an explanation of the reduction in the allocation from the Health, Wellbeing and Cities portfolio.**

Reshaping Care for Older People Change Fund

143. Draft Budget 2012-13 states that £80 million/£80 million/£70 million will be allocated to the Change Fund from within NHS budgets over the period of the Spending Review and would be supplemented by funding from local authority partners. Draft Budget 2013-14 states that the health and wellbeing portfolio will in 2013-14 “maintain the Change Fund at £80 million in order to support the pace of delivery of better outcomes for the older people.”¹³¹
144. In its report on last year’s budget the Committee invited the SG to clarify “the level of supplementary funding which it expects local authorities to contribute to the Change Fund.” The SG responded that “Subject to local agreement, and consistent with their Change Fund allocations by using supplementary funding from other sources, including local authorities.”
145. The Committee also invited the SG to clarify whether there has been a review of progress in implementing the Change Fund. The SG responded that a mid-year review of progress of Change Fund Plans for 2011-12 was published

¹²⁷ [Scottish Government. Response to the Finance Committee’s Report on 2012-13 Draft Budget.](#)

¹²⁸ [Scottish Government. Draft Budget 2013-14, P. 59.](#)

¹²⁹ [Scottish Government. Draft Budget 2013-14, P. 26.](#)

¹³⁰ [North Ayrshire Council. Written submission to the Finance Committee.](#)

¹³¹ [Scottish Government. Draft Budget 2013-14, P. 25.](#)

on 5 October 2011 by the Joint Improvement Team (JIT). The SG states that its main findings are that “overall, good progress is being made by Partnerships with regard to their Change Plans.” It is unclear from Draft Budget 2013-14 whether there has been any further review by the JIT.

146. In its report on Draft Budget 2012-13¹³² the Committee asked the SG whether there is a need for Ministers to intervene to ensure that the money provided through the Change Fund is being spent appropriately. The SG responded that Ministers had “already made clear in its guidance that the proportion of funding allocated by Partnerships to preventative and anticipatory care and to proactive care and support at home should increase.”¹³³ However, while welcoming the Change Fund, Age Scotland stated in written evidence that—

“we have concerns that the money is not being used to fund exclusively preventative measures. We believe the Government needs to apply stricter conditionality about how the money is spent, evaluate the outcomes it delivers and report on how commissioning priorities have been shifted.”¹³⁴

147. For example, it suggested that while the guidance prescribes 20% of the funding should “be allocated for carers services in 2012/13, the reality is much less.”¹³⁵

148. The Health and Sport Committee points out that the move towards a preventative spend agenda is “dependent on significant cultural change taking place within the NHS” but that response from the NHS “has been a little slow and the required cultural change has been difficult to bring about.” The Health and Sport Committee has indicated that it intends to “monitor future spending plans for evidence of action to implement a shift to preventative spending.”¹³⁶

149. **The Health and Sport Committee “recommends that Scottish Government Health Directorates (SGHD) be clearer about its expectations for spending on preventative programmes and set out a medium and long-term plan for the shift in funding it expects to see.”¹³⁷ The Committee supports this recommendation.**

150. **The Committee also asks whether there has been any further review of the progress of the Change Fund by the JIT and, if so, whether this will be published.**

¹³² [Scottish Parliament Finance Committee. 3rd Report 2011 \(Session 4\) Report on Scottish Spending Review 2011 and Draft Budget 2012-13.](#)

¹³³ [Scottish Government. Response to the Finance Committee's Report on 2012-13 Draft Budget.](#)

¹³⁴ [Age Scotland. Written submission to Finance Committee.](#)

¹³⁵ Ibid

¹³⁶ [Scottish Parliament Health and Sport Committee. Report on the Scottish Government Draft Budget 2013-14, P.7.](#)

¹³⁷ [Scottish Parliament Health and Sport Committee. Report on the Scottish Government Draft Budget 2013-14, P.15.](#)

Reducing Reoffending Change Fund (RRCF)

151. Draft Budget 2013-14 states that: “we will focus on early and targeted intervention to reduce reoffending through the £7.5 million Reducing Reoffending Change Fund and we will look to improve links between employment, housing, education and health services to help people who have repeatedly offended access the services they need to reduce their reoffending.”¹³⁸

152. The Justice Committee notes that the Fund “is being used to establish mentoring for offenders across Scotland”¹³⁹ and states that “mentoring for offenders on release can be successful in deterring reoffending behaviour” and is pleased that the RRCF is being used to fund such projects.

Commission on the Future Delivery of Public Services (Christie Commission)

153. Following the publication of the Christie Commission report the SG established the Cabinet Sub-Committee on Public Services Reform to drive forward and co-ordinate progress on a comprehensive programme of improvement and reform. In response to the Committee’s request for a six-monthly update on progress from the sub-committee the SG confirmed that it “would be happy to update the Committee on progress on public service reform activity.” Draft Budget 2013-14 includes a brief section on progress on renewing public services in which the SG states that the Christie Commission informed the Spending Review 2011 in marking “a step change in renewing the public services.”¹⁴⁰

154. In its report on Draft Budget 2012-13 the Committee sought clarification on whether the SG had plans to take forward specific Christie Commission recommendations including the introduction of statutory powers and duties across all public services bodies which would include a presumption in favour of preventative action and tackling inequalities. The SG responded that it had “not yet reached a firm view” on this but that it would be discussing this issue with local government and other interested parties.¹⁴¹

155. The Committee would welcome an update from the SG as to whether it intends to introduce a new set of statutory powers and duties as recommended by the Christie Commission.

McClelland Review of Information and Communications Technology (ICT) Infrastructure

156. The SG states in Draft Budget 2013-14 that it will implement its [*Scotland's Digital Future – Delivery of Public Services*](#) strategy, which sets out its response to the McClelland Review.

¹³⁸ [Scottish Government. Draft Budget 2013-14, P. 45.](#)

¹³⁹ [Scottish Parliament Justice Committee. Report on the Scottish Government Draft Budget 2013-14, P.24.](#)

¹⁴⁰ [Scottish Government. Draft Budget 2013-14, P. 15.](#)

¹⁴¹ [Scottish Government. Response to the Finance Committee's Report on 2012-13 Draft Budget.](#)

157. The Committee considered the McClelland Review during last year's budget process and invited the SG to provide a progress report including details of savings within future draft budget documents. The SG stated in its response that the "Public Sector ICT National Board will provide progress reports to the Cabinet Sub-Committee for Public Service Reform and we would be happy to provide an annual update on progress to the Committee."¹⁴² The National Board is expected to "agree a common approach across sectors to measurement and benefits realisation"¹⁴³ and to report to the Cabinet Sub Committee on progress.

158. The SG stated in its response to the McClelland Review that Spending Review 2011 assumes savings of between £230 million - £300 million a year will be made in the ICT budgets of the public sector.

159. **The Committee notes the concerns of the Justice Committee that "ICT systems are not as advanced as expected at this stage"¹⁴⁴ of the police reforms and asks how the findings of the McClelland Review are informing this process.**

160. **The Committee invites the SG to provide the agreed annual update on progress including details of savings and efficiencies achieved as a consequence of implementing the McClelland review recommendations.**

OTHER ISSUES

Scotland Act 2012 Implementation

161. The draft budget states that in 2013-14 the SG will "provide additional funding to bodies responsible for implementing new responsibilities particularly relating to taxation, set out in the Scotland Act."¹⁴⁵ There is a budget line within the Parliamentary Business and Government Strategy budget for £3.5 million for 2013-14 but no allocation for either 2012-13 or 2014-15.

Set-up costs for Devolved Taxes

162. The SG has provided SPICe with estimated set-up costs for establishing and administering the devolved taxes in Scotland as follows—

Table 8

	Set-up Cost (£000)
Revenue Scotland	1655
Registers of Scotland	335
SEPA	540

Source: Scottish Government

¹⁴² [Scottish Government. Response to McClelland Review of ICT Infrastructure in the Public Sector in Scotland.](#)

¹⁴³ Ibid

¹⁴⁴ [Scottish Parliament Justice Committee. Report on the Scottish Government Draft Budget 2013-14, P.13.](#)

¹⁴⁵ [Scottish Government. Draft Budget 2013-14, P. 133.](#)

Costs of Implementing SRIT

163. The Secretary of State for Scotland has indicated that the costs of implementation of the new financial powers should be met by the SG although this may be partly offset by any savings from ending HMRC's role in administering Stamp Duty Land Tax and Landfill Tax. The SG has indicated that its "chief concern now is that HMRC should be given a real incentive to deliver the necessary changes at minimum cost consistent with effective and efficient operation and a quality service to Scottish taxpayers." ¹⁴⁶

164. HMRC stated in written evidence to the Committee that the "cost of implementing the Scottish rate of income tax is estimated at £45 million with an annual operating cost of about £4.2m a year."¹⁴⁷ In oral evidence to the Committee it clarified that this was an estimate when the bill was published and that "we hope that expenditure will be significantly less than £45 million."¹⁴⁸

165. The Cabinet Secretary stated in a ministerial statement to the Parliament on 7 June 2012 that—

"HMRC will implement the Scottish rate of income tax. Under current constitutional arrangements, that tax will be introduced in 2016 at an estimated cost of £45 million to the Scottish public purse. By establishing Revenue Scotland, the Parliament and I can exert our influence to keep costs to a minimum. As yet, the UK Government has not provided a means for me or the Parliament to keep such a check on HMRC's costs. I will continue to pursue that matter and I hope that I will have Parliament's full support in that." ¹⁴⁹

166. The Committee asks why no money appears to have been allocated for Scotland Act implementation issues other than for 2013-14.

167. The Committee also seeks clarification on when the costs of implementing the SRIT are likely to arise, what mechanisms are in place to agree and monitor these costs with HMRC and whether there has been any update on the initial estimate of £45 million.

168. As part of its on-going scrutiny of the implementation of the Scotland Act the Committee has agreed to take evidence from HMRC officials on an annual basis and will seek to monitor costs through that process.

Active Travel

169. The ICI Committee states that it remains convinced that the level of public investment in sustainable and active travel is insufficient and is "concerned by the planned reduction in the 'sustainable and active travel' Budget line in 2014-15, to £19 million." The ICI Committee, therefore, "recommends that the

¹⁴⁶ [Letter from Scottish Government Cabinet Secretary for Parliamentary Business and Government Strategy to Secretary of State for Scotland, 21 March 2012.](#)

¹⁴⁷ [HM Revenue and Customs. Written Submission to Finance Committee.](#)

¹⁴⁸ [Scottish Parliament Finance Committee, Official Report, 30 May 2012, Col. 1290.](#)

¹⁴⁹ [Scottish Parliament. Official Report, 7 June 2012, Col. 9906.](#)

Scottish Government should consider further immediate adjustments to the current” indicative forecasts for 2014-15 and “redirect additional funding from other transport lines to active travel.”¹⁵⁰

170. The ICI Committee “does not believe however, particularly due to the lack of transparency of the information contained within the Draft Budget, that it is best placed to identify where additional funding for active travel should come from within the transport budget, and that this task should be undertaken by the Scottish Government.”¹⁵¹

171. The Committee suggests that the provision of more level 4 figures across the transport budget would assist the ICI Committee in identifying where the additional money for active travel could be found.

Equalities

172. This section of the report considers equalities issues and in particular the impact of welfare reform on the draft budget.

Welfare Reform

173. A significant theme of this year’s budget scrutiny has been the impact of welfare reform. SCVO, for example, argues that the proposals have “blown a hole in the spending review.”¹⁵² While it welcomes the additional money for the social fund and crisis loans, SCVO argues for a different approach to the budget with a greater emphasis on preventative approaches and community-based solutions.

174. Citizens Advice Scotland (CAS) states in written evidence—

“One of CAS’ main points in our response to the Scottish Spending Review 2011 and Draft Budget 2012-13¹⁵³ was that the impact of UK welfare reform changes had not been taken into consideration. We made the point that the Spending Review did not mention the changes which will lead to £2.5 billion being taken out of the Scottish economy over much of the period of the spending review. We stated that, at a time when public services and local authority funding was also being reduced, this was short-sighted. This remains our major area of concern.”¹⁵⁴

175. CAS continues—

“The Fraser of Allander Institute has stated that that benefit cuts will result in £2 billion being taken out of the Scottish economy by 2014-15 and they expect this to “contribute to the weak growth of household spending.”¹⁵⁵ An

¹⁵⁰ [Scottish Parliament Infrastructure and Capital Investment Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.43.](#)

¹⁵¹ [Scottish Parliament Infrastructure and Capital Investment Committee. *Report on the Scottish Government Draft Budget 2013-14*, P.44.](#)

¹⁵² [Scottish Parliament Finance Committee, *Official Report*, 31 October 2012, Col. 1758.](#)

¹⁵³ [Citizens Advice Scotland. *Written submission to Finance Committee*.](#)

¹⁵⁴ [Citizens Advice Bureau. *Written submission to Finance Committee*.](#)

¹⁵⁵ [The Fraser of Allander Institute. *Economic Commentary Vol. 34 No 2 November 2010*.](#)

estimated £1 billion of this £2 billion will be from disabled people and their families.¹⁵⁶

These changes and the loss in personal income will have a direct impact on local economies and communities. As welfare payments, and therefore spending power, is reduced, the money being spent within local economies across Scotland will decrease also; with what could be very damaging consequences for some local communities. CAS believes this must be accounted for in the next Scottish budget.”¹⁵⁷

176. The Cabinet Secretary stated in oral evidence to the Committee that, given a fixed financial settlement, “The first thing to acknowledge is that the Scottish Government...cannot mitigate all the effects of welfare reform within Scotland. Quite simply, you cannot take out the estimated £2.5 billion through welfare reform and consider that a Scottish Government that is operating under its devolved competence can address all that.”¹⁵⁸

177. He went on to identify three areas where the SG is taking action—

- Seeking to mitigate the financial effects of the abolition of council tax benefit;
- Additional resources to meet shortfalls in the social fund;
- Focusing the delivery of public services on supporting some of the most vulnerable in our society.

178. The Cabinet Secretary has also discussed with the Welfare Reform Committee “the necessity to undertake a rolling assessment of the financial effect of the welfare reform proposals.”¹⁵⁹ In a further letter to the Committee dated 29 November 2012 the Cabinet Secretary stated that: “I can confirm that a total of 95,000 households could lose up to between £27 and £65 per month under the under-occupancy penalty.”

179. The Committee notes the action which the SG is taking to mitigate the effects of welfare reform and recommends that future draft budgets provide details of the impact which the reforms are having on the Scottish budget.

180. The Committee also asks the SG to provide an update on any Barnett consequential arising from welfare reform and how the SG intends to allocate these.

Welfare Reform and Housing Supply

181. The ICI Committee looked at the impact of welfare reform policy on housing supply. It suggested that the welfare reforms “may well put future housing investment at risk” but acknowledged “the efforts of the Scottish Government to

¹⁵⁶ [Inclusion Scotland. Welfare Reform Briefing, September 2011.](#)

¹⁵⁷ [Citizens Advice Bureau. Written submission to Finance Committee.](#)

¹⁵⁸ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1806.](#)

¹⁵⁹ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1807.](#)

challenge and mitigate negative impacts of aspects of the welfare reform legislation, particularly regarding reforms relating to Housing Benefit.”¹⁶⁰

182. In relation to this issue the Cabinet Secretary stated that: “I am concerned that, in the short term, local authorities and RSLs face significant challenges as a result of the likely impact of the changes to financial support to housing.”¹⁶¹

183. The Cabinet Secretary stated in his follow-up letter dated 29 November 2012 that “I can confirm that a total of 95,000 households could lose up to between £27 and £65 per month under the owner-occupancy penalty – 14% of eligible benefit for a household with 2 or more unoccupied bedrooms.”¹⁶²

Social Fund Successor Arrangements

184. Table 9.15 of the Draft Budget includes a reference to ongoing discussions with the UK Government on the transfer of funding for the social fund and community care grants. The SG has advised that these discussions have now been concluded and that there will be a transfer from the UK Government of just under £24 million which will be topped up by £9.2 million from the SG.

185. The Cabinet Secretary for Infrastructure, Investment and Cities stated in evidence to the Welfare Reform Committee that: “Although the £9.2 million for the social fund, which I have mentioned, does not yet appear discretely in the draft budget, it will by the time we get to the end of the process.”¹⁶³

186. The Committee invites the SG to provide details of which budget lines will be affected by the £9.2 million for the social fund.

Fuel Poverty

187. In last year’s draft budget report the Committee noted the recommendation of the EET Committee that the SG reconsider its budget plans to provide at least £200m per annum to eradicate fuel poverty with half of that sum coming directly from the SG. While the SG is committed to the eradication of fuel poverty as far as is reasonably practicable by 2016 the EET Committee notes that the latest SG estimate is that “if current trends continue, it is projected that the median household will be pushed into fuel poverty from 2012.”¹⁶⁴ The SG has allocated £65 million in Draft Budget 2013-14 with the energy companies expected to invest £135 million.

¹⁶⁰ [Scottish Parliament Infrastructure and Capital Investment Committee. Report on the Scottish Government Draft Budget 2013-14, P.22.](#)

¹⁶¹ [Scottish Parliament Finance Committee. Official Report, 5 November 2012, Col 1808.](#)

¹⁶² [Letter from Scottish Government Cabinet Secretary for Finance, Employment and Sustainable Growth to Convener of the Finance Committee, 29 November 2012.](#)

¹⁶³ [Scottish Parliament Welfare Reform Committee. Official Report, 23 October 2012, Col 297.](#)

¹⁶⁴ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.36.](#)

188. The EET Committee has requested that the SG write to it to confirm “how it will address any shortfall should energy companies not invest sufficiently given that they have no power to compel these companies to invest this amount.”¹⁶⁵

189. The Committee invites the SG to keep it informed of the level of funding which the energy companies are investing in measures designed to eradicate fuel poverty.

Equality Statement

190. The EOC stated that: “We heard in evidence of how the Equality Statement is very much viewed as positive progress in adopting a much more equality-focused approach to the budget process in Scotland as such is to be welcomed and applauded. We would therefore like to emphasise the significance of the Equality Statement in demonstrating progress with an overall approach to equalities...”¹⁶⁶

191. The Health and Sport Committee also welcomed the publication of the Equality Budget Statement “which should help ensure that equality considerations are taken seriously during the annual budgetary process and help subject committees to assess the equality impact of the Scottish Government’s spending plans.”¹⁶⁷

192. However, the EOC also stated that while it welcomes that all of the other committees reported to it on equalities issues and “given the Scottish Government’s emphasis on the importance of equalities to the budget process, including the production of the Equality Statement which addresses each portfolio, we are slightly disappointed not to see more material coming back from the various committees.”¹⁶⁸

193. The Committee welcomes the publication of the Equality Budget Statement.

Climate Change Targets

194. During last year’s budget process the RACCE Committee highlighted the inherent difficulties of one committee attempting to scrutinise actual spend on achieving the Scottish Government’s climate change targets as set out in the [Climate Change \(Scotland\) Act 2009](#) due to policies crossing all subject committees’ remits and Cabinet Secretaries’ portfolios. Consequently, the RACCE Committee has invited all subject committees to include consideration of climate change issues in their own budget scrutiny. The RACCE Committee

¹⁶⁵ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.38.](#)

¹⁶⁶ [Scottish Parliament Equal Opportunities Committee. Report on the Scottish Government Draft Budget 2013-14, P.4.](#)

¹⁶⁷ [Scottish Parliament Health and Sport Committee. Report on the Scottish Government Draft Budget 2013-14, P.20.](#)

¹⁶⁸ [Scottish Parliament Equal Opportunities Committee. Report on the Scottish Government Draft Budget 2013-14, P.26.](#)

has agreed to “analyse and review the mainstreaming process early in the new year to determine its effectiveness.”¹⁶⁹

195. The RACCE Committee also carried out its own scrutiny of the climate change budget and stated that it:

“is disappointed to learn that little progress appears to have been made in developing methodologies that would allow the Scottish Government to understand the full downstream impact of individual policies on climate change targets and urges the Scottish Government to do what it can to progress work in this area.”¹⁷⁰

196. The RACCE Committee also recommends that: “the Scottish Government consider adjusting the requirements of the Climate Challenge Fund to encourage applicants to bring forward projects which combine environmental and economic sustainability.”¹⁷¹

197. The EET Committee: “calls on the Scottish Government to set out how progress on meeting the emissions targets in the Climate Change Act can be accelerated and to assess how both public and private sector investment can be increased to ensure that targets in the next Low Carbon Scotland document are achievable” and “asks the Scottish Government to publish the updated RPP¹⁷² before seeking the approval of Parliament for its budget.”¹⁷³

198. The ICI Committee “notes the concerns expressed about the sufficiency of the funding for domestic home energy efficiency and fuel poverty contained within the budget. However, it also notes that the Scottish Government is currently developing its Sustainable Housing Strategy, which will provide more detail on how it intends to deliver its proposed national retrofit programme, as well as other related initiatives.”¹⁷⁴

Access to Budget Information

199. In its report on last year’s draft budget the Committee reported that it was concerned that: “a number of subject committees have reported difficulties in carrying out effective scrutiny due to a lack of detail in certain areas of the budget.”¹⁷⁵

¹⁶⁹ [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Report on the Scottish Government Draft Budget 2013-14, P.6.](#)

¹⁷⁰ [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Report on the Scottish Government Draft Budget 2013-14, P.20.](#)

¹⁷¹ [Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Report on the Scottish Government Draft Budget 2013-14, P.22.](#)

¹⁷² RPP: Report on Proposals and Policies

¹⁷³ [Scottish Parliament Economy, Energy and Tourism Committee. Report on the Scottish Government Draft Budget 2013-14, P.6.](#)

¹⁷⁴ [Scottish Parliament Infrastructure and Capital Investment Committee. Report on the Scottish Government Draft Budget 2013-14, P.31.](#)

¹⁷⁵ [Scottish Parliament Finance Committee. 3rd Report 2011 \(Session 4\) Report on Scottish Spending Review 2011 and Draft Budget 2012-13.](#)

200. This year the Education and Culture Committee states that: “A feature of this year’s scrutiny has been the way in which several witnesses were unable to state the exact changes to further education budgets...” and “changes to budgets, allied to the complexity of the figures presented to the Committee, have made its budget scrutiny difficult”. The Education and Culture Committee recommends that the SG and the Finance Committee consider how budgetary information can “be presented in a clear and transparent format, so that its scrutiny can be as effective as possible.”¹⁷⁶
201. The difficulties largely arose due to the extent of in-year changes to the 2012-13 budget figures which were not reflected in the 2013-14 Draft Budget. This point is also made by the ICI Committee which points out in relation to the affordable housing budget that in the absence of clear statements from the Scottish Government on how in-year changes impact on the wider budget “they make effective scrutiny remarkably difficult.” The SG explains that its approach is consistent with that taken in previous years and that the 2012-13 changes were not included as they had not received parliamentary approval at the time of the Draft Budget’s publication.
202. The Education and Culture Committee recommends that, where in-year changes have been made or proposed to budgets in future years, “the Scottish Government should provide it, alongside the relevant draft budget, with an explanation of how any such changes have affected the previous baseline.”¹⁷⁷ This would allow committees to see how the most up to date estimate of the total budget in the base year directly compares with the subsequent year’s total in the draft budget.
203. The Health and Sport Committee stated that: “For adequate scrutiny by the Parliament, as well as for effective partnership working, SGHD must place much more of its data and planning in the public domain.”¹⁷⁸ **The Committee recommends that future draft budgets present figures for the preceding year that include any in-year changes. Where necessary, these can include the caveat that these are subject to formal parliamentary approval.**
204. **The Committee also recommends that where information within the draft budget relates to several financial years that a breakdown is provided for each year.**

Level 4 Figures

205. Following the publication of the 2013-14 Draft Budget, and within the terms of the revised Written Agreement, Level 4 information was provided to the committees and to the FSU within ten days of the publication of the Draft Budget. This assisted the committees in their budget scrutiny.

¹⁷⁶ [Scottish Parliament Education and Culture Committee. Report on the Scottish Government Draft Budget 2013-14, P.3.](#)

¹⁷⁷ [Scottish Parliament Education and Culture Committee. Report on the Scottish Government Draft Budget 2013-14, P.6.](#)

¹⁷⁸ [Scottish Parliament Health and Sport Committee. Report on the Scottish Government Draft Budget 2013-14, P.17.](#)

206. **The Committee welcomes the improved arrangements for provision of Level 4 information. The Committee notes however that the provision of level 4 figures was not universal and asks the SG to provide an explanation in areas where level 4 figures were not available.**

Alternative Spending Proposals

207. The Committee notes that some subject committees have suggested alternative spending proposals without identifying where the money would come from. **The Committee reminds subject committees of paragraphs 39 and 40 of the guidance on the draft budget which was published in June 2012 and which states—**

“The Finance Committee would expect that subject committees would propose additional spend within their remit and that they would take money from another budget line within their remit, since they will have built up an evidence base for this during their scrutiny of the draft budget.”¹⁷⁹

Scottish Parliamentary Corporate Body (SPCB)

Introduction

208. The Committee is required to consider the budget proposal of the SPCB. The SPCB's budget is drawn from the Scottish Consolidated Fund and is allocated before the SG makes any other allocations. The SPCB budget covers not only the costs associated with the running and organisation of the Parliament (SPCB staff, capital costs etc) but also the budgets for the various parliamentary commissioners and the Scottish Public Services Ombudsman.

209. The budget proposal was submitted on 8 November 2012¹⁸⁰ and considered by the Committee on 14 November 2012 when it took oral evidence from the SPCB.¹⁸¹ The Committee sought and received clarification on a number of issues including capital expenditure, in particular, the cost of the external security facility, officeholder property costs and the staff pay budget.

Headline figure

210. The SPCB has identified a total budget requirement of £86.9 million. With regard to the projected cumulative real terms 12.7% reduction in the budget to 2014-15 (from the 2010-11 baseline), the Committee sought assurance that the Parliament could provide the necessary service at that level. The SPCB said in response—

“Overall, we have managed the budget reduction in a planned way. It made sense to make the savings early, and we were able to do that through a series of voluntary redundancies and retirements and through a pay freeze. Not only have we achieved that against a difficult financial backdrop, but we

¹⁷⁹ [Budget process 2013-14: Guidance to subject committees, the Equal Opportunities Committee and the European and External Relations Committee.](#)

¹⁸⁰ [Letter from the Presiding Officer to the Convener of the Finance Committee, 8 November 2012.](#)

¹⁸¹ [Scottish Parliament Finance Committee. Official Report, 14 November 2012, Cols 1841 – 1854.](#)

have accommodated some of the additional responsibilities that the Parliament has and is taking over and factored them into the budget.

The corporate body is fairly comfortable that we are achieving the balance between delivering the cost reductions on the one hand and continuing to maintain service levels on the other”.¹⁸²

211. The Committee welcomes this assurance from the SPCB.

Capital costs: External security facility

212. The Committee sought clarification from the SPCB on the £6.5 million capital cost of the external security facility. The SPCB said—

“In 2011-12, the spend was £0.5 million, which includes design fees, project management and so on; in 2012-13, the tender exercise and the commencement of construction will total £3.6 million over the course of the financial year; and for 2013-14, when the project will be completed, the budget allocation is £2.4 million.”¹⁸³

Commissioners and Ombudsman

213. In its report on the draft budget 2011-12, the previous Committee drew attention to the expectation of the then SPCB that, over the period of the UK spending review, the various parliamentary officeholders would be expected to make the same budget reductions as the SPCB. The SPCB refers to a real terms reduction of 17.4% in officeholder budgets (against the 2010-11 baseline).

214. The Committee welcomes the provision by the SPCB, as requested in the draft 2012-13 budget report, of figures showing how each officeholder is performing.

215. The Committee sought clarification on the property costs associated with the various commissioners, in particular over potential savings through the possible relocation of all or most commissioners to operate “out of one hub”.¹⁸⁴ **The Committee invites the SPCB, in its budget proposal for 2014-15, to provide an update on how this matter is proceeding and what future budget savings it forecasts as a result of any sharing of facilities and services.**

Audit Scotland

216. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000—

‘Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish

¹⁸² [Scottish Parliament Finance Committee. Official Report, 14 November 2012, Col 1845.](#)

¹⁸³ [Scottish Parliament Finance Committee. Official Report, 14 November 2012, Col 1846 - 1875.](#)

¹⁸⁴ [Scottish Parliament Finance Committee. Official Report, 14 November 2012, Col 1848.](#)

Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.¹⁸⁵

217. The Scottish Commission for Public Audit (SCPA) is required to consider the budget proposal from Audit Scotland and then report to Parliament. It considered Audit Scotland's 2013-14 budget proposal¹⁸⁶ and fee strategy¹⁸⁷ at its meeting on 25 October 2012¹⁸⁸ and reported on 2 November 2012¹⁸⁹ in line with the written agreement with this Committee.¹⁹⁰

218. Audit Scotland's income comes from two main sources, fees and direct funding from the Parliament. Its budget proposal indicates a requirement of £6,592,000 for 2013-14, which it states is an overall cash reduction of 5.5% over the 2012-13 budget (7.8% real terms). The bulk of its income comes from the fees charged to audited bodies (local government, NHS, Scottish Water, central government and further education). In 2013-14 it estimates income from fees totalling £17,565,000.

219. The budget proposal aims to deliver on the following—

- continuance of the four-year plan to reduce the cost of audit by at least 20% in real terms by 2014-15
- running cost reduction of 2.8% from 2012-13 budget (5.2% real terms)
- average audit fee reductions of 4.35% for 2012-13 audits
- freezing of planned fees for 2013-14 audits at 2012-13 levels

220. In its report, the SCPA highlights issues around the robustness of audit scrutiny, capital expenditure, fee strategy and future areas of consideration which may impact on budget proposals.

221. The Committee notes the continuing scrutiny by the SCPA of Audit Scotland's performance in delivering a robust audit scrutiny process. The SCPA is aware that, during periods of reduced resources and increased pressure on public finances, the role and benefit of good audit must be supported to ensure the public purse achieves maximum benefit for every pound spent. The SCPA sought assurance from Audit Scotland that, given its ambitious, but welcome, savings targets the quality and robustness of audit scrutiny of public bodies would not be reduced. It also sought evidence on how Audit Scotland monitors the external firms it appoints to conduct audits to ensure they maintain the necessary and required standard of audit, particularly as audit fees become

¹⁸⁵ [*Public Finance and Accountability \(Scotland\) Act 2000.*](#)

¹⁸⁶ [*Audit Scotland. Budget Proposal 2013-14.*](#)

¹⁸⁷ [*Audit Scotland. Fee Strategy, September 2012.*](#)

¹⁸⁸ [*Scottish Parliament Audit Committee, Official Report, 25 October 2012, Col 111.*](#)

¹⁸⁹ [*Scottish Commission for Public Audit. 2nd Report, 2012 \(Session 4\). Audit Scotland's Budget Proposal for 2013-14.*](#)

¹⁹⁰ [*Written Agreement between the Scottish Commission for Public Audit and Audit Scotland on the Budget Process in Session 4 of the Scottish Parliament.*](#)

lower. The SCPA questioned Audit Scotland about the feedback it receives from audited bodies on performance and quality.

222. The Committee notes the SCPA will continue to examine Audit Scotland's performance and will seek further information about such feedback, including from the officeholders funded directly by the Scottish Parliament. The SCPA also stated it would continue to monitor Audit Scotland with regard to a number of areas within its capital expenditure budget and the fee charges.

223. The Committee notes the SCPA questioned Audit Scotland about the budgetary impacts which the newly devolved taxes under the Scotland Act 2012 and the future audit of community planning partnerships may have. On new taxes, the SCPA is aware that wider consideration of this issue will be taken forward by this Committee (and the Public Audit Committee). The Committee welcomes the commitment by the SCPA to monitor Audit Scotland should any subsequent involvement it has impact on its budget, for example, through the need for additional staff. The Committee also notes the SCPA will discuss further with Audit Scotland its role, and any budgetary impact, as regards the audit of community planning partnerships.

224. The Committee welcomes the consideration given by the SCPA to Audit Scotland's budget proposal and its assistance in this Committee's overall scrutiny of the draft budget. The SCPA's report concludes it—

- is content with the information provided by Audit Scotland, both in the budget proposal and in oral evidence;
- again stresses the importance of maintaining a high quality, independent audit function and this is an area which it will continue to monitor closely; and
- recommends that Audit Scotland's request for a total resource requirement of £6,592,000 for 2013-14, to be provided from the Scottish Consolidated Fund, be approved by the Parliament.

225. **The Committee notes these recommendations.**

CONCLUSION

226. **The Committee has focused its budget scrutiny this year on whether draft budget 2013-14 prioritises sustainable economic growth. A key plank of the SG's economic strategy is to seek to maximise capital investment through a number of different mechanisms including the NPD model and switching funding from resource to capital. Whilst the Committee welcomes this emphasis on capital investment there is a need for greater clarity both in terms of the exact additional investment which is being provided and the capital projects which are being supported. There is also the need for greater analysis of the linkage between the SG's spending priorities and outcomes including a cost-benefit analysis of the contribution which the spending priorities make towards sustainable economic growth.**

ANNEXE A: EXTRACTS FROM THE MINUTES

24th Meeting, 2012 (Session 4) Wednesday 26 September 2012

Draft Budget Scrutiny 2013-14: The Committee took evidence in a round table format on the Scottish Government's Draft Budget 2013-14 from—

Colin Borland, Head of External Affairs, FSB Scotland; Garry Clark, Head of Policy and Public Affairs, Scottish Chambers of Commerce; Michael Levack, Chief Executive, Scottish Building Federation; David Melhuish, Director, Scottish Property Federation; Alan Watt, Chief Executive, CECA Scotland.

25th Meeting, 2012 (Session 4) Wednesday 3 October 2012

Draft Budget Scrutiny 2013-14: The Committee took evidence in a round table format from the David Hume Institute—

Stephen Boyle, Head of RBS Group Economics, RBS Group Economics; Ian Diamond, Principal and Vice Chancellor, University of Aberdeen; John Hughes, High Growth Advisor, Edinburgh Chamber of Commerce; Donald MacRae, Chief Economist, Lloyds Banking Group Scotland; Colin Mason, Professor of Entrepreneurship, Adam Smith Business School; Jeremy Peat, Director, The David Hume Institute; Ian Ritchie, Vice President, Royal Society of Edinburgh.

26th Meeting, 2012 (Session 4) Wednesday 24 October 2012

Draft Budget Scrutiny 2013-14: The Committee took evidence from—

Professor John Kay.

27th Meeting, 2012 (Session 4) Wednesday 31 October 2012

Draft Budget Scrutiny 2013-14: The Committee took evidence on the Draft Budget 2013-14 in a round table format from—

Callum Chomczuk, Senior Policy and Parliamentary Officer, Age Scotland; George Hosking, Chief Executive, Wave Trust; Margaret Lynch, Chief Executive, Citizens Advice Scotland; Robin Parker, President, NUS Scotland; Ruchir Shah, Policy Manager, Scottish Council for Voluntary Organisations; Maureen Watson, Policy Director, Scottish Federation of Housing Associations.

28th Meeting, 2012 (Session 4) Monday 5 November 2012

Draft Budget Scrutiny 2013-14: Members reported back on the outcomes of the workshop sessions involving local organisations held before the start of the meeting.

Draft Budget Scrutiny 2013-14: The Committee took evidence on the Draft Budget 2013-14 from—

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Andrew Watson, Head of Finance Policy, and Graham Owenson, Head of Local Government Finance Unit, Scottish Government.

29th Meeting, 2012 (Session 4) Wednesday 14 November 2012

Draft Budget Scrutiny 2013-14: The Committee took evidence on the Draft Budget 2013-14 from—

Liam McArthur MSP, member of the Scottish Parliamentary Corporate Body, Paul Grice, Clerk/Chief Executive, and Derek Croll, Head of Financial Resources, Scottish Parliament.

31st Meeting, 2012 (Session 4) Wednesday 28 November 2012

Draft Budget Scrutiny 2013-14 (in private): The Committee considered a draft report and agreed to consider a further draft at its next meeting.

32nd Meeting, 2012 (Session 4) Wednesday 5 December 2012

Draft Budget Scrutiny 2013-14 (in private): The Committee considered a revised draft report. Various changes were proposed and decided upon (two by division) and the report was agreed for publication.

Record of divisions in private:

Michael McMahon proposed the following paragraph after paragraph 226. The proposal was disagreed to by division: For 3 (Gavin Brown, Michael McMahon and Elaine Murray), Against 4 (Kenneth Gibson, Jamie Hepburn, John Mason and Jean Urquhart).

The Cabinet Secretary for Finance, Employment and Sustainable Growth asserted that this was a budget for economic growth. However, the evidence which the Committee received does not support this assertion.

John Mason proposed the following paragraph after paragraph 226. The proposal was disagreed to by division: For 3 (Kenneth Gibson, Jamie Hepburn and John Mason), Against 4 (Gavin Brown, Michael McMahon, Elaine Murray and Jean Urquhart).

The Committee notes the extremely difficult worldwide economic situation and considers that the Cabinet Secretary for Finance, Employment and Sustainable Growth has produced a budget which encourages sustainable economic growth.

ANNEXE B: INDEX OF ORAL EVIDENCE SESSIONS

Please note that all oral evidence and associated written evidence is published electronically only, and can be accessed via the Finance Committee's webpages, at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29822.aspx>

[24th Meeting, 2012 \(Session 4\) Wednesday 26 September 2012](#)

Colin Borland, Head of External Affairs, FSB Scotland; Garry Clark, Head of Policy and Public Affairs, Scottish Chambers of Commerce; Michael Levack, Chief Executive, Scottish Building Federation; David Melhuish, Director, Scottish Property Federation; Alan Watt, Chief Executive, CECA Scotland.

[25th Meeting, 2012 \(Session 4\) Wednesday 3 October 2012](#)

Stephen Boyle, Head of RBS Group Economics, RBS Group Economics; Ian Diamond, Principal and Vice Chancellor, University of Aberdeen; John Hughes, High Growth Advisor, Edinburgh Chamber of Commerce; Donald MacRae, Chief Economist, Lloyds Banking Group Scotland; Colin Mason, Professor of Entrepreneurship, Adam Smith Business School; Jeremy Peat, Director, The David Hume Institute; Ian Ritchie, Vice President, Royal Society of Edinburgh.

[26th Meeting, 2012 \(Session 4\) Wednesday 24 October 2012](#)

Professor John Kay.

[27th Meeting, 2012 \(Session 4\) Wednesday 31 October 2012](#)

Callum Chomczuk, Senior Policy and Parliamentary Officer, Age Scotland; George Hosking, Chief Executive, Wave Trust; Margaret Lynch, Chief Executive, Citizens Advice Scotland; Robin Parker, President, NUS Scotland; Ruchir Shah, Policy Manager, Scottish Council for Voluntary Organisations; Maureen Watson, Policy Director, Scottish Federation of Housing Associations.

[28th Meeting, 2012 \(Session 4\) Monday 5 November 2012](#)

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Andrew Watson, Head of Finance Policy, and Graham Owenson, Head of Local Government Finance Unit, Scottish Government.

[29th Meeting, 2012 \(Session 4\) Wednesday 14 November 2012](#)

Liam McArthur MSP, member of the Scottish Parliamentary Corporate Body, Paul Grice, Clerk/Chief Executive, and Derek Croll, Head of Financial Resources, Scottish Parliament.

ANNEXE C: INDEX OF WRITTEN EVIDENCE

Written submissions—

- [Action on Smoking and Health Scotland \(14.4KB pdf\)](#)
- [Age Scotland \(42.9KB pdf\)](#)
- [CBI Scotland \(117KB pdf\)](#)
- [Christopher Kenmore \(6.32KB pdf\)](#)

- [Citizens Advice Bureau \(43.7KB pdf\)](#)
- [Confor - Promoting forestry and wood \(16.9KB pdf\)](#)
- [Cross Party Group on Cycling \(11.1KB pdf\)](#)
- [Cycling Scotland \(52.6KB pdf\)](#)
- [East Ayrshire Council \(34.0KB pdf\)](#)
- [FSB \(24.5KB pdf\)](#)
- [NHS National Services Scotland \(17.9KB pdf\)](#)
- [North Ayrshire Council \(53.3KB pdf\)](#)
- [NUS Scotland \(42.2KB pdf\)](#)
- [Pedal on Parliament \(18.6KB pdf\)](#)
- [Royal Society of Edinburgh \(32.6KB pdf\)](#)
- [Scottish Building Federation \(34.0KB pdf\)](#)
- [Scottish Chambers of Commerce \(19.4KB pdf\)](#)
- [Scottish Council for Development and Industry \(26.3KB pdf\)](#)
- [Scottish Council for Voluntary Organisations \(42.3KB pdf\)](#)
- [Scottish Federation of Housing Associations \(148KB pdf\)](#)
- [Scottish Property Federation \(21.7KB pdf\)](#)
- [Spokes The Lothian Cycle Campaign \(43.3KB pdf\)](#)
- [Stop Climate Chaos Scotland \(38.9KB pdf\)](#)
- [Transform Scotland \(36.4KB pdf\)](#)
- [Wave Trust \(19.4KB pdf\)](#)
- [Woodlands Trust Scotland \(23.6KB pdf\)](#)
- [WWF Scotland \(22.9KB pdf\)](#)

ANNEXE D: OTHER SUBMISSIONS

- [Letter from Presiding Officer to the Convener on the SPCB's budget proposal \(3392KB pdf\)](#)
- [Written agreement with the Scottish Government \(102KB pdf\)](#)
- [Written agreement with the Scottish Parliamentary Corporate Body \(110KB pdf\)](#)
- [Written agreement with the Scottish Commission for Public Audit \(114KB pdf\)](#)
- [Guidance to the subject committees, the Equal Opportunities Committee and the European and External Relations Committee \(208KB pdf\)](#)
- [Report on the Draft Scottish Budget 2013-14: Professor David Bell \(411KB pdf\)](#)
- [Scottish Parliament Financial Scrutiny Unit briefing on the draft budget 2013-14.](#)
- [Letter from Cabinet Secretary for Finance, Employment and Sustainable Growth to Convener 25 September 2012 \(1.22MB pdf\)](#)
- [Professor John Kay briefing note to the Finance Committee \(28KB pdf\)](#)
- [Letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener: Follow-up information to oral evidence session \(Hawick\) 29 November 2012 \(220MB pdf\)](#)

ANNEXE E: REPORTS FROM OTHER COMMITTEES

- [Economy, Energy and Tourism Committee](#)
- [Education and Culture Committee](#)
- [Equal Opportunities Committee](#)
- [Health and Sport Committee](#)
- [Infrastructure and Capital Investment Committee](#)
- [Justice Committee](#)
- [Local Government and Regeneration Committee](#)
- [Rural Affairs, Climate Change and Environment Committee](#)

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